JPRS 77430

20 February 1981

Latin America Report

No. 2258

'THE VENEZUELA EFFECT':

OIL REVENUE AND DEVELOPMENT STRATEGY

FBIS FOREIGN BROADCAST INFORMATION SERVICE

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Indexes to this report (by keyword, author, personal names, title and series) are available from Bell & Howell, Old Mansfield Road, Wooster, Ohio 44691.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

JPRS 77430

20 February 1981

LATIN AMERICA REPORT

No. 2258

'The Venezuela Effect': Oil Revenue and Development Strategy

Caracas RESUMEN in Spanish 11 Jan 81 pp 4-35

[Article by Jorge Olavarria]

[Text] The "Venezuela Effect" was a work presented by Jorge Olavarria at the "International Colloquium on Human Freedom and Dignity in Development Strategies," which was organized in the city of West Berlin last August by the Friedrich Naumann Stiftung Foundation. Subtitling his work "how Venezuela managed and invested government revenue as an oil-producing country from 1900 to 1979," Olavarria feels that it is a first draft for a more ambitious macrohistoric, macroeconomic study aimed specifically at uncovering historical patterns and constants in the case of countries that suddenly receive revenue from the extraction of a nonrenewable natural resource. Olavarria feels that he can complete the book of which this study is a general outline by July 1981. He has been invited to give a series of talks on this subject at the American universities of Dartmouth and Harvard in the spring of 1981.

'The Venezuela Effect'

For some time I thought that Perez Alfonzo had invented the term because of how often he used it. Nevertheless, a closer reading of his book "Sinking Into the Devil's Excrement" disclosed that he, in turn, had taken the term from the FINANCIAL TIMES of London, from which the magazine TIME had picked it up to describe the phenomenon that Norwegian economists were trying to avoid around 1974 on account of the money flooding into their country.

It is quite possible that the term was invented by Norwegian economist Erling Eide, who has speculated about the inflationary effects of sudden wealth on his country, which had recently joined the select club of oil-exporting nations. The phenomenon is not in itself new, of course. We could talk of a "Potosi effect" to describe what happened to Spain's economy when the silver extracted from that legendary hill was imported in massive amounts to the peninsula. But although it is a longstanding economic phenomenon, an understanding of it seems to be beyond the reach of politicians, who succumb to the illusion of yesterday's Potosi wealth or today's petroleum wealth. This essay is an attempt to interpret this politicoeconomic phenomenon in 20th century Venezuelan history.

On the evening of 6 October 1973 the armies of Egypt and Syria attacked Israel, and the fourth and, so far, the last "Arab-Israeli" war thus began. After an initial surge of successes, by 16 October, 10 days later, the military situation had become static, with the trend running against the armies that had been victorious up to then. On 18 October, five Arab oil-producing countries met in Kuwait and made a decision that was to change the war, of course, but also the oil-producing countries' and the world's economy: they decided to use the oil "weapon." The "weapon" of economic pressure and, specifically an oil boycott, had, of course, not been invented by them. When the League of Nations voted in sanctions against Italy for its aggression in Ethiopia, petroleum timidly entered the sphere of economic "weapons." A few years later, Japan was virtually forced to go to war to break the strangle hold represented by the limitations imposed on the country's access to this vital energy source. But by 1973 the picture was quite a bit more complicated, and above all its dimensions were much larger. Over the quarter of a century that had transpired since the end of the First World War, the world's industrialized nations had increased severalfold their energy dependence on a resource extracted from colonial or semicolonial regions. When they gained their freedom, these regions acquired greater control over their oil and demanded and got an increasingly just and equitable share of the wealth from it; this was an inevitable and unstoppable political process. Its nonrenewable nature and its relative scarcity in light of the voracity with which it was consumed led, among other reasons, to the creation of OPEC, an economic cartel whose ultimate objective was and is to do for the benefit of the producing countries what the de facto cartel of the major transnational oil companies had done for decades for the benefit of consumer countries. Thus, five Arab oil-producing countries (Saudi Arabia, Iraq, Kuwait, Qatar and Abu Dhabi) decided in October 1973 to embargo all oil exports to three countries: the United States, Canada and Holland. The first two were, paradoxically, oil producers themselves and until a very short time before had theoretically been self-sufficient; Holland was the center of one of the largest transnational companies, but the country itself was entirely dependent on imported oil. But more importantly, the Arab oil-producing countries decided to begin gradually cutting output by five percent a month. Based on the sound law of supply and demand, the result could only be a rise in the price of oil.

This complex and dangerous scenario rationally ruled out any use of force by the industrialized nations of the West, first of all because of the extreme vulnerability of the oil installations, which ran the risk of being shut down for a much longer time in the event that they were damaged during combat or sabotaged by the producing countries themselves, but secondly because of the Soviet and American naval forces that were facing off in the Mediterranean Sea and Indian Ocean. But the important development was that regardless of whether the Arab-Israeli military situation was defused or brought to a standstill, the situation would never again be the same with regard to oil. Oil prices, which had been unfairly frozen at very low levels for more than 20 years, suddenly jumped to levels more consistent with the product's nonrenewability and relative scarcity in the world. This situation would pose enormous challenges to man's inventiveness and imagination in two entirely different spheres. The consuming countries had to maximize the efficiency of their industrial complexes, their

engines and their use of oil as an energy source and try to develop sources other than oil. The producing countries had to invest the enormous revenues they would earn in a rational, effective and constructive fashion so that they could begin resolving their overwhelming human, social and political problems and build economies to replace the source from which they emerged, with an eye towards the eventual but fatally certain depletion of their oil.

In this study, which I presented at the International Colloquium on Human Freedom and Dignity in Development Strategies, conducted by the Friedrich Naumann Foundation in Berlin, I will try to describe the case of one of these oil-producing countries, Venezuela, and how it dealt with the peculiar problem of rationally utilizing the enormous increases in its revenue in the wake of the events of 1973. Venezuela was a founder and promoter of OPEC but in spite of this did not take part in the boycott or reduce its output, as did the five Arab members of the organization in October 1973. It did, however, raise its prices in line with the overall increase and in accordance with its favored geographic location. Venezuela and Ecuador are the only Christian-Western members of OPEC. Along with Mexico, it has the hemisphere's largest petroleum reserves outside of the United States, and for more than 20 years its politics have been conducted within a free, democratic model, which is also an exception among Latin American nations. The 1973 oil price increase tripled the Venezuelan Government's estimated revenue for 1974. During the 5 years from 1974 to 1979, the government had available more money than all preceding administrations this century. The purpose of this study is to analyze the basic elements of the development strategies implemented during this period.

II. While the Arab and Israeli armies were fighting in the Sinai Desert and on the Golan Heights; and the American and Soviet warships were facing off in the Mediterranean; and the leaders of the Arab oil-producing countries decided to boycott oil exports and cut production, in Venezuela an election campaign was in full swing that would conclude in December 1973 with the selection of a new president, Congress, State Assemblies and City Councils.

For many years Venezuela had tried to secure so-called "hemispheric treatment" from the United States. This meant that the United States would accept that Venezuela provided a nearby and secure supply of oil and would accord it, if not equal, at least fair treatment in comparison to its own producers, especially the ones from Texas, who ran a powerful political lobby in Washington. Over that period of more than 20 years, American oil was expensive, and oil from Venezuela and, of course, the Middle East, was inexpensive. Nothing was achieved: American policy stubbornly protected the country's oil by means of oil import "quotas," while "allowing" imported oil, almost all of it from Venezuela, onto its market under extremely unfavorable conditions, the avowed purpose of which was not to deplete its reserves too quickly. By 1973, however, the situation had evolved to the point that the United States had changed from a self-sufficient exporter into an importer. There were several reasons for this, the main one being its irresponsible policy of greedy energy consumption, which in 1973 had led the United States to consume 17.3 million barrels of oil a day and to manage its own deposits with clear-cut ineptitude. But above and beyond

everything that we can quite correctly say about the reasons why the United States became dependent on imported oil (10 percent from the Persian Gulf), the number one reason was because oil was cheap.

Unjustifiably cheap. It was because of these same realities that the technologically advanced countries, such as those of Western Europe and Japan, had held back on their programs to look for alternative energy sources and, in some cases, had initially subsidized and then halted coal mining. By 1973, Western Europe depended on imported oil for 64 percent of its needs, and Japan 76 percent. As if there were not enough evidence that cheap oil was unjustifiably detrimental to the producing countries, we can point to the fact that during that same year, 1973, the main source of government revenue in England and any other consuming country was direct and indirect taxes on gasoline and other petroleum derivatives. If it had not been cheap, such heavy taxes would not have been possible. To all this we have to add the royalties and other taxes that the companies paid on their profits to the treasuries of consuming nations. But by 1973 the circumstances were ripe for the countries that owned this oil wealth to begin reversing this unjust situation, first by taking control of the oil companies operating there, then by eliminating other distorting factors such as the shipment of the oil, and lastly by forcing through a rise in crude oil prices to levels consistent with its nonrenewability, its scarcity and, to some extent, its extraordinary potential for even greater value through non-energy uses. In short, these had been the basic reasons why OPEC was created, and after a shaky start, it had succeeded in convincing member countries that competition among them based on high output and low prices was virtual suicide. The reduction in output decided on at the historic Kuwait Conference of 18 October 1973 was not, hence, just a direct or immediate consequence of the state of war between Israel and its Arab neighbors; it represented the skillful use of an opportunity that OPEC had been long awaiting to achieve its objectives.

Even though Venezuela was a charter member and a creator of OPEC, on the initiative of one of its most brilliant and clear-sighted men, Juan Pablo Perez Alfonzo, and even though a cut in output and a rise in prices were cardinal objectives of its policy, the dangerous general situation in the world took precedence, and Venezuela joined neither the boycott nor the drop in production; on the contrary, it boosted output as much as possible. But Venezuela did, of course go along with the rise in prices, which quadrupled as the weeks went by. If this development posed very serious problems for the consuming countries, the problems were no less serious for the producing nations like Venezuela. Surplus revenue is, to be sure, an enviable problem, but it is no less serious on that account.

III. The problem of additional revenue in a country is a ticklish one. It necessitates several conceptual and not always simple clarifications. In the first place, you have to spell out what you mean by "additional." Additional to what? To estimated revenue? To needs? To the population's standard of living? To the customary public spending levels of poor countries? To expectations? To previous public spending? In any event, we are talking about revenue that exceeds the expectations of leaders or planners. The proper use of this revenue depends on their ability to grasp the nature of money and the

fact that this money comes from the depletion of an asset, a nonrenewable source of wealth. There is an enormous temptation to fall prey to the illusion that money is synonymous with wealth and that spending generates progress. We must realize that the label "rich country" is pinned almost automatically on every country that enjoys sizable revenues that are out of proportion to its true production capacity. Furthermore, the simple arithmetic operation of dividing up national income among the population creates the illusion of "per capita income," which does not necessarily mean that each and every person represented in this figure has available or enjoys the amount of money that the numbers say he does. In short, in most cases we are looking at rich states but poor nations, affluent governments but poverty-stricken citizens. Moreover, there is a clear and evident danger of frittering away these revenues by creating an inflationary spiral, but this is not always enough to withstand the temptation to pursue spending policies that inevitably trigger inflation. These are just some of the problems prompted by the "enviable" problem of too much money or a sudden flood of it. To all this we must also add that the undisguisable fact of the money creates a mood of national euphoria, of greed, of the desire to do quickly and with money alone what it has taken others years of effort and sacrifice to accomplish.

The analogy of the beggar or mineworker who suddenly becomes rich by a stroke of luck is not all that inapplicable to the situation of the oil-producing countries. The illusory "magic" and "immediate" solution to all problems; the resulting "happiness" that people expect to feel when they can enjoy luxuries and opportunities that were previously denied them, in short, the orgy of imagination that raises the expectations of individuals and nations and turns them into dreams of grandeur, accomplishment, justice, progress...But the matter is not as trivial or self-evident as it would seem to be from the certainly applicable parallel of the man who gains sudden wealth and gets drunk. There is more to it. Many, too many economists and social planners have made a fetish of "capital" as the primary development factor in their theories and writings, either explicitly or implicitly. It is taken for granted that with capital and only with capital peoples can emerge from backwardness, ignorance and poverty. They forget that countries with populations retarded by centuries of hunger and disease, with overwhelmingly large segments of the population caught in the tragic vicious circle of ignorance and poverty, are the frame of reference that is all too often overlooked when capital is worshipped as the main or the only factor for progress. Examples abound. The success of the Marshall Plan was tied to the educational level of the area at which it was aimed. The failure of the many economic aid programs for underdeveloped countries can be ascribed to the fact that, out of a false sense of propriety or respect or because of the blindness implicit in making a fetish out of money, they overlooked the human framework within which and with which they endeavored to produce the same "miraculous" results as the European recovery after the debacle of World War II. This stark fact is compounded by another: the "development-oriented" utopia that claims that in order for culturally backward peoples to make productive use of their capital resources, the useless baggage of "liberal institutions" must be "left behind." This trend of thought, which is represented by economist Celso Furtado, among many others outside the realm of dogmatic Marxism, stems

in some cases from a lack of faith in the power of freedom, of the law and of man's creative energies, a lack of faith that becomes an impatience to quickly achieve the maddening whirlwind of materialist consumerism that represents one of the most harmful extravagances by which Western civilization has gone astray. But more than anything it stems from the same blindness, the same illusion, steeped in the fetishistic worship of capital and money, which downplays or overlooks that the root, the source, the origin of everything lies in man, that it is man who causes his societies to progress, regardless of the difficulties or advantages that he undergoes or enjoys at a given moment and that freedom and human dignity, his most sacred attributes, are the basic engines in any development process. That is why when these development strategies forget man and worship capital, they fail. That is why the "totalitarian" temptation that Jean Francois Revel talks to us about is to be found not only amid poverty but amid affluence as well, as an omnipresent excuse for "postponing" in the name of greater efficiency that which, paradoxically, is a prerequisite for it. In addition, the democratic mechanisms for monitoring expenditures are also disregarded, the excuse being a bid for greater and better efficiency.

IV. These facts and these dangers were not alien to Venezuela by 1973. Located in the extreme northern part of South America, with a territory of a bit less than a million square kilometers and with some 12 million inhabitants, more or less the same population as Holland with a territory 30 times larger, or double the area of Denmark or Switzerland with an area 23 times larger, the country had begun the 20th century in the most pitiful of conditions. At the start of the 19th century, Venezuela was the leader in the efforts to break free from Spain, and it was there that the fiercest battles were fought in the war against the troops sent from Spain to subdue the rebels. It was from Venezuela that Bolivar, Miranda, Sucre,Paez and so many others set out, whose efforts were decisive in defeating the Spanish in Peru in 1824. But by the end of the 19th century and early in the 20th, Venezuela was marked by pitiful backwardness and decadence. The civil wars had so exhausted the country that it was a real miracle that the colonialist and imperialist powers did not try to reconquer it. By 1903, Venezuela was so far behind in paying off its debts that the powerful creditor nations, England, Germany, Italy and Holland, decided to blockade its ports to forcibly collect part of what they were owed by taking over its customs-houses.

This move, which was certainly reprehensible, gave rise to the doctrine of the Argentine internationalist Drago, who termed the forcible collection of debts an unacceptable act under international law. But in any case, the episode was an eloquent example of the poverty-stricken, backward and underdeveloped conditions in which the nation that engendered South American independence found itself. All of this was taking place on an international scene on which the United States went from being a protective power under the Monroe Doctrine to being a colonialist and imperialist power, a stage that began in the 20th century under Teddy Roosevelt and that saw, in the Caribbean, the seizure of Panama, the takeover of Puerto Rico and the "constitutional" intervention in Cuba, as well as the enthronement of the most awful one-man dictatorships, all of them under the protective shadow of the American fleet's guns or the watchful eyes of the Marines, as was the case with Juan Vicente Gomez in Venezuela in 1908 or

Somoza in Nicaragua, Machado in Cuba, Trujillo in the Dominican Republic. By the start of the First World War, people were aware of major petroleum deposits in Venezuela, but it was not until 1920 that the world's attention was drawn to the proud but mistreated homeland of Bolivar by the uncontrolled explosion of the La Rosa Well on the western shore of Lake Maracaibo. Oil's impact on the economy was as yet moderate at the time, but by 1930 it was already replacing Venezuela's traditional exports, coffee and cacao, as a source of treasury revenue. That year, the 100th anniversary of Bolivar's death, the country paid homage to him by repaying all of its foreign debts, which had been a source of such anguish and humiliation over the intervening years.

By the time that dictator Juan Vicente Gomez died in 1935, his "open door policy" had made a fortune for the foreign investors who had exploited Venezuelan oil almost free from controls, while enriching some greedy friends of the regime to a much lesser extent and the National Treasury even less so. But in addition, it had made Venezuela the world's leading oil exporter and a country with an acceptably mature and developed oil industry. From that time on, first timidly and later more firmly, Venezuelan governments began amending laws and making decisions to boost the nation's share in the earnings from the oil business and to shake off the semicolonial status in which it found itself. Under an old law taken from the Spanish tradition, the subsoil was not subject to appropriation by anyone and remained in the hands of the state, which granted "leases" for its development. These leases had been granted under several laws, from the old 1913 Mining Laws to the modern specialized hydrocarbons laws. This had given rise to a confusing legal patchwork that was very detrimental to the country. Finally, in 1943, after a difficult series of talks and negotiations with the leaseholders and their governments, and taking advantage of the world war that was going on, the Medina Angarita administration succeeded in consolidating all of the leases under a single law, the Hydrocarbons Law of 1943. This was a true revolution, but totally different from the path that Mexico had taken in 1939 when the Lazaro Cardenas administration nationalized and expropriated the entire oil industry without compensation. The law granted the state wideranging powers to inspect, monitor and effectively oversee the deposits so that optimum use could be made of them. From a legal standpoint, all leases were consolidated under it and, as compensation, were "renewed" for 40 years. Thus, the leases were to expire in 1983. This meant that the leases, plus all of the installations and accessories, including the refineries, would be taken over by the state at the expiration date; provision was also made for the state to take several measures 10 years prior to this to guarantee the conditions in which the leases would revert to the nation.

This was what happened, and in 1973, 10 years before all of the oil leases reverted to the state, Venezuelans had almost absolute control over their main source of wealth. The 1943 law had stipulated a "fifty-fifty" arrangement... 50 percent for the leaseholding companies and 50 percent for the state...but this was not the case until 1948, when the Income Tax was amended, pursuant to a proposal from a man who turned out to be an extraordinarily clear-sighted prophet in many other fields, the founder of OPEC, Juan Pablo Perez Alfonzo. From that time on, Venezuela gradually boosted its share in the profits, which under the reforms of 1958, 1965 and 1970 reached 95 and 98 percent. In addition,

first by means of obligatory quotas for Venezuelan nationals at all levels of the industry and then by the very inertia of events, by 1973 Venezuelans were in the highest management posts, the most specialized technical supervisory positions and the expert exploration or refinery operations crews. The creation of OPEC in September 1960 was, furthermore, the culmination of the efforts that Venezuela had been making since 1948 to convince the other producing countries that they had a justifiable need for a greater share in the returns from a nonrenewable resource that the world's industrialized consuming countries were unfairly exploiting and that they ought to decrease competition among themselves by cutting output and thus commanding better prices. As the year 1974 dawned, domestic and international conditions made the final step towards Venezuela's absolute control over its oil an almost inevitable development. Technically speaking, we cannot talk of the "nationalization" of Venezuelan oil. It was "national" in every respect, with a minimal aspect of the business, practically limited to marketing the product overseas, left up to the companies with the leases. Everything else, from the actual supervision of the deposits to their operation and management, was in Venezuelan hands by 1973.

Thus, the step taken in 1975, whereby the remaining 8 years on the leases were transferred to the state, was, in fact, far from traumatic and the natural outcome of the development model implicit in the admirable law of 1943. This case is especially interesting for our analysis: the human factor was decisive here. The development of highly trained Venezuelan supervisory personnel, which took years, enabled the country to begin running a colossal enterprise (the holding company PETROVEN [Venezuelan Petroleum, Inc] is among the 20 largest in the world) without setbacks, traumas or unnecessary pauses. But although it is true that this was the case with the oil industry, the same cannot be said about what the industry did for the country.

V. Oil is, without the slightest doubt, the central element in the history of 20th century Venezuela. In this respect, the same could be said of any other producing country, aside from the developed nations. Oil came on the scene in Venezuela shortly after World War I, when its importance as a strategic energy source was already beyond the slightest doubt. Even though during the first few years, under the savage dictatorship of Juan Vicente Gomez, the Venezuelan State's earnings were minimal compared to those of the companies that won gigantic leases, even so these earnings meant that the country had access to its own capital resources, which it had never before possessed. At the beginning of the century, Venezuela was a poor exporter of coffee, cacao, untanned cattle hides, heron feathers and exotic woods. When the Treasury recorded its first revenues from oil in 1917, nothing had been done up to that point in the century with regard to communications, education, health care, urban development or industry. The modest railways and roads, the schools, the universities, the ports, the farms and the ranches were the same as during the century before. Everything was to happen because of the oil. Petroleum's first visible impact was, perhaps, quantitatively modest but qualitatively enormous. Oil's first and most visible consequence was the disparity in working conditions and wages between oil workers and peasant farmers. By 1930, the state had gotten its finances in order under modern systems, paid off all its debts and begun

spending money on luxuries characteristic of industrialized countries. In 1933, for the first time in its history, Venezuela's soldiers exchanged their modest "hemp sandals" for leather boots. Per capita government spending had risen 10-fold from 1900 to 1930 and from 1920 to 1930 it had quintupled. In 1930, for the first time in history, government spending hit the 1 billion bolivar mark. (1) In 1979, just 50 years later, overall government spending is close to 200 billion, and per capita spending has risen 100-fold over 1900 and 58-fold over 1930. (2) In 1930, our population numbered 3 million; it totals 15 million in 1980. (3) Over the 63 years that petroleum has been a living presence for the Venezuelan Treasury, some 36 billion barrels of crude have been extracted from the soil. (4) At current prices this astronomical amount, which is equivalent to double the country's present proven reserves, would be worth 2.5 trillion bolivars ($581 billion). But the proceeds from this sea of oil that has been extracted over a bit more than a half century have not always been justly distributed, nor have they gone to the Venezuelan Treasury gradually or uniformly. In the first place, we can state that until 1970 the transnational corporations had firm control of the oil market and played some countries or zones against others to always maintain a buyer's market with low prices.

The jolting developments in Mexico in 1939, Iran in 1950 or the Suez in 1956 hardly caused a ripple in oil prices, but by the beginning of the 1960's things were different. Firstly, the voracious consumption of petroleum, spurred on basically by low prices, had brought about a change: the industrialized countries now depended on the oil producers for their survival, not vice-versa. The latter had by this time succeeded in freeing themselves from the colonial or semicolonial yoke and had been able to take advantage of the balance of power between the two superpowers to secure better prices. To all this we should add the geopolitical fact that the volatile Arab-Israeli conflict was being played out in the heart of the world's oil-producing area par excellence. All of these very complex factors jelled in October 1973 and led to the quadrupling of oil prices overnight. What we want to emphasize here, however, is that Venezuela's increasing share in the oil wealth has always come about on account of developments beyond its control or influence (and, for that matter, of any other oil-producing country).

The course charted basically by the 1943 law, preceded by other amendments to the Labor Law (obligatory quotas for Venezuelan nationals), certainly provided the domestic groundwork so that the higher realized oil prices would benefit the producer. But this is irrelevant to the fact that the decisive developments in the sudden jumps in the country's oil revenues have been fortuitous, chance developments beyond the control or influence of Venezuelans, with the isolated exception of the creation of the OPEC cartel.

But we have to acknowledge that internal factors did decisively condition both the state's share in the oil wealth and the use that it made of it. The following comparisons are illustrative because they have been selected from periods of the most dramatic political changes:

--Between 1900 and 1908 Venezuela was ruled by Cipriano Castro, a corrupt and cruel tinhorn dictator given to nationalist bluster. In 1979 values, he had

available during those years a total of 2.057 billion bolivars ($478.84 million in 1979 values), 63.3 percent from customs receipts, 32.2 percent from "other taxes" and 4.5 percent from "supplementary revenue" (loans). "Oil did not exist." This money went 53 percent for administrative expenses, 25.4 percent for defense, 12.2 percent for economic expenditures, 22.7 percent for other purposes and only 4.1 percent for social expenditures.

--Venezuela was governed between 1909 and 1935 by the iron hand of dictator Juan Vicente Gomez. During this quarter of a century, social and political life came to a virtual standstill, so much so that it is a commonplace saying that the 20th century begins in Venezuela in 1935. During those 26 years the state collected a total of 13.368 billion bolivars ($3.108 billion) in 1979 values. Oil accounted for just 15 percent of this total.

The expenditures breakdown also reveals what sort of political "model" it was: 29.2 percent for general administration, 16 percent for defense, 32.1 percent for economic investments, 17.3 percent for other purposes and just 5.3 percent for social outlays. Despite all this, during this period the country organized the National Public Treasury, updated and made its army professional and paid off its foreign debt, which had been a source of such anguish and humiliation in previous years.

--During the 10 years between 1935 and 1945, we had the succeeding administrations of Eleazar Lopez Contreras and Isaias Medina Angarita, which virtually began, with some backtracking, the period when civil liberties were exercised, political parties and unions were organized and freedom of expression and the right to demonstrate were asserted. Over this 10-year stretch the country spent, in 1979 values, 16.347 billion bolivars, 1½ times more over 10 years than during the preceding 25. Oil brought in 31.5 percent of it (5.15 billion in 1979 values). The expenditures breakdown was as follows: 19 percent for administration, 10 percent for defense (note that there was a drop from the previous period) period), 42.6 percent for economic investments, 15.9 percent for "other purposes" and 11.9 percent for social outlays. Circumstances were taken advantage of at the height of the Second World War to negotiate reforms of the entire legal structure regarding oil with the leasing companies, and the Hydrocarbons Law was passed in 1943. This meant that from 1944 to 1945 alone petroleum revenue doubled with respect to each preceding year. The government spending pattern also changed radically. The first budget, in 1937, already showed a trend towards earmarking more money for education and health care. The end of the period saw the extraordinarily successful beginning of an urban and rural environmental cleanup program to combat yellow fever, and in a relatively short time Venezuela was no longer one of the countries affected by this terrible disease.

In addition, although it is true that the income tax was established, the general trend was towards a lightening of the domestic tax burden as oil revenue rose. It was during these years that the country became fully aware of what oil meant to its present and future. Several alternative models were proposed by men such as Romulo Betancourt, who was the first Venezuelan politician to make oil and its uses the focus of his concerns, Alberto Adriani, Juan Pablo Perez Alfonzo and Arturo Uslar Pietri. The latter coined the phrase "sow the oil,"

which accurately summarizes the basic problem for oil-producing countries: they have to invest their profits and create alternate sources of wealth to prepare for the inevitable time when the oil runs out.

--In 1945 a civilian and military revolution toppled the government of Isaias Medina Angarita, and from 1946 to 1948 major changes took place in the amount of oil revenue and public spending. Profiting from the 1943 law and also from the boom in oil consumption as the Second World War drew to a close, the revolutionary government issued a decree on the last day of 1945 under which all taxpayers with net income of over 800,000 bolivars would pay a special graduated tax of up to 20 percent. This measure, which was clearly designed with the oil companies in mind, produced this result, combined with other moves: in slightly more than 2 years, 1946 to 1948, the state took in revenue of 12.305 billion bolivars (in 1979 values). Remember that the 10 preceding years (1935-45) yielded 16.347 billion and the previous 25, 13.368 billion (always in 1979 values). All of these changes came about suddenly; the government and the state became more dependent on oil revenues, and government spending patterns varied in accordance with the political leanings of those in power. From 1945 to 1948, per capita government outlays were 946 bolivars, whereas during the 25 years of the Gomez dictatorship they stood at 173 bolivars and at 404 bolivars under the governments from 1935 to 1945. The breakdown of public spending was not significantly different, however, in 1946-48 and during the 10 preceding years, though the amounts doubled. Administrative costs accounted for 18.1 percent of the total, defense 7.5 percent, economic outlays 49.7 percent, other purposes 12.8 percent and social outlays 11.9 percent.

The civilian government of Romulo Gallegos was overthrown in November 1948 by a military coup d'etat, and after several incidents Col (later general) Marcos Perez Jimenez became firmly entrenched in power in 1950. Favorable treatment of the leaseholding companies and the boom in world consumption boosted oil production from 1.3 million barrels a day in 1949 to 2.7 million in 1957. No new leases had been granted since 1943, and maximum extraction from the deposits was the guideline. New leases were granted in 1956. No efforts whatsoever were made to reach agreements with other producing countries on cutting overall output, nor is there any reason to think that had there been, they would have been successful, given the colonial or semicolonial subjugation in which they still found themselves. The leases granted in 1956 brought the Treasury supplementary revenue of 2.177 billion, as 822,000 hectares were leased out, representing 14 percent of all leased land as of that year. This fact alone shows that not having awarded leases since 1943 had helped boost their value from the 24 bolivars per hectare in 1943 to 2,660 in 1956. Treasury revenue from 1949 to 1957 totaled 74.311 billion bolivars (in 1979 values), with oil accounting for 51.3 percent of it. Over these 10 years the government had 5½ times more money than during the 25 years of the Gomez dictatorship, 4½ times more than from 1935 to 1945 and 6 times more than from 1946 to 1948. Furthermore, however, we should point out that for the first time in Venezuela's history, more than half of the Treasury's revenue came from oil. The money was spent as follows: 13.6 percent for general administrative costs; 8.8 percent for defense; 55.2 percent for economic expenditures; 11 percent for other purposes and 11.4 percent for social outlays. Proportionally speaking, the public spending pattern was the same as it had been since 1935. Per capita government

spending during these years rose to 1,136 bolivars, which is 7½ times more than during the 10 years from 1935 to 1945 and 1½ times more than from 1946 to 1948.

--Marcos Perez Jimenez' military dictatorship was overthrown in January 1958, and after a transition period the first freely elected president since 1947 took power in 1959. Since then, freely elected presidents have served four 5-year terms, and we are at the outset of the fifth (1979-1984). Between 1958 and 1973 (15 years) taxes on the oil companies gradually increased to the optimum level of a 98 percent state share in their profits. During this period Treasury revenue totaled 310.364 billion bolivars ($72.177 billion) in 1979 values, 58.3 percent of it from oil. During this period, which saw the following governments: provisional (1958-59; Larrazabal/Sanabria), Betancourt (1959-1964), Leoni (1964-1969) (both from the Democratic Action Party, which has Social Democratic leanings), Caldera (1969-1974) (Christian Democrat Party), the breakdown for government spending was as follows: general administration, 8.2 percent; defense, 9.3 percent; economic expenditures, 35 percent; others, 19 percent and social outlays, 28.1 percent. Here we can see a real change in the proportional distribution of government spending. Per capita government spending during these 15 years and 4 administrations totaled 2,194 bolivars (in 1979 values), in other words, 1½ times more than during the 1948-58 dictatorship and more than all consolidated per capita government spending during the first half of the 20th century. The Venezuelan State's total revenue over these 15 years (1958 to 1973) was 2.67 times greater than the total revenue of "all" Venezuelan governments from 1900 to 1958 (in 1979 values)!

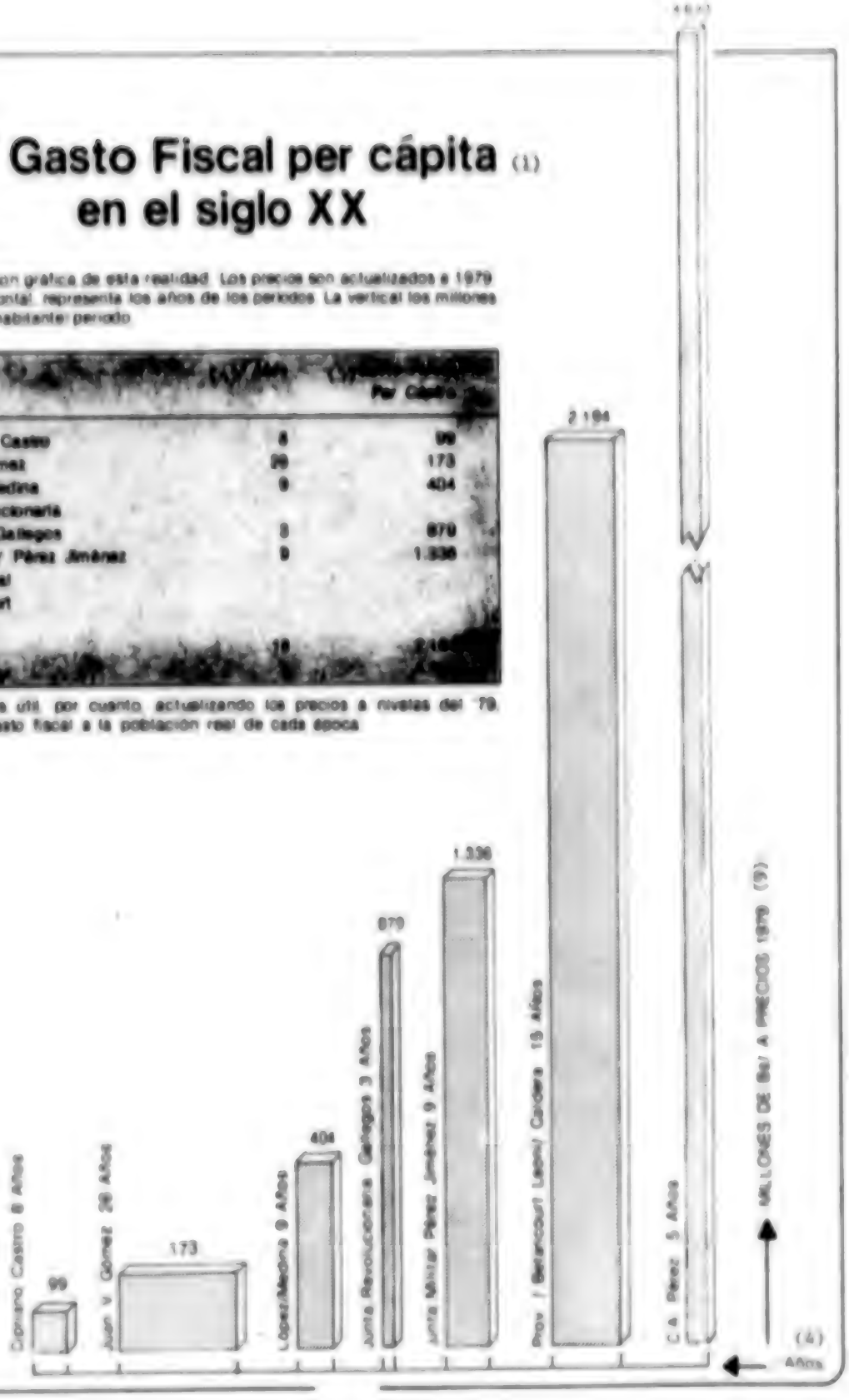
Several trends and patterns can be detected from our analysis, by "political periods," of Venezuelan government revenue; of how much of it oil accounted for; of per capita government spending, which makes it proportional to the population; and of the breakdown in public spending. To round out this picture we would, of course, have to take a look at total oil output and exports in relation to government's share in them, among other things, but this is irrelevant to this monograph's specific objective; moreover, it is pointless to demonstrate the obvious, because the government share was minimal and oil exports were high. This simply means that the transnational corporations were taking the lion's share, which is a secret to no one. This was true, however, only to 1943. From that time on, Venezuela was in the forefront of efforts aimed at an increasing share in oil profits, without adopting the radical nationalization model that Mexico, among others, decided to pursue in 1939. This largely explains why output did not rise in proportion to the increase in revenue. It was for this reason...and because oil prices rose moderately but rose nonetheless...that Venezuelan Government revenue was so enormous over the 15 years from 1958 to 1973, double what had gone into the Treasury in the 41 preceding years (since 1917, the first year of significant oil receipts). By 1973, however, the state share had reached an optimum level, 98 percent of the profits. By that time it remained only to nationalize the installations that would in any case revert to the state in 1983, to add to "government revenue" the share of the profits that the companies distributed to their shareholders. It was the events of 1973, however, that were to trigger the sharpest jump in Venezuelan Government

El Gasto Fiscal per cápita (1) en el siglo XX

(2) Esta es una vision gráfica de esta realidad. Los precios son actualizados a 1979. La escala horizontal representa los años de los periodos. La vertical los millones de bolivares/ habitante/ periodo.

(3) Periodo	[illegible]	[illegible] Per Cápita
Cipriano Castro	8	99
J. V. Gómez	26	173
López/Medina	9	404
(6) J. Revolucionaria Rómulo Gallegos	3	879
(7) J. Militar/ Pérez Jiménez	9	1.336
Provisional		
Betancourt		
Leoni		
Caldera	15	[illegible]
C.A. Pérez	[illegible]	[illegible]

(8) Esta gráfica es útil, por cuanto, actualizando los precios a niveles del '79, relaciona el gasto fiscal a la población real de cada época.



Key:

1. Per capita government spending in the 20th century
2. These graphs illustrate the facts. The amounts are in 1979 bolivars. The horizontal line represents the time frame. The vertical graphs represent the millions of bolivars per inhabitant per period.
3. Period
4. Years
5. Per capita government spending
6. Revolutionary junta
7. Military junta
8. The graph is useful because by stating the amounts in 1979 bolivars it shows actual government spending per capita during each period.
9. Millions of bolivars in 1979 values

revenue so far this century. When Egyptian troops crossed the Suez Canal on the evening of 6 October 1973, the average realized price of a barrel of Venezuelan oil was $3.79. A year before, Venezuela was producing 3.2 million barrels of oil a day, but the average realized price per barrel was $2.60, and government revenue per barrel stood at $1.65. This showed that the lower the output, the higher the price, and thus the state received more money by selling a smaller amount of this precious, nonrenewable natural resource. It took many years and a great deal of effort for the members of OPEC to grasp this elementary truth...or to be in a position to assert it vis-a-vis the power of the transnational corporations or the industrialized countries. The events of 1973 wrought the miracle. By 1974, the average realized price of a barrel of Venezuelan oil was $10.42, and the government's share stood at $9.78. Over the final months of 1973 and during 1974, this caused the sharpest jump in Venezuelan Government revenue in its entire history. The problem facing the government that was elected in December 1973 was not the usual one confronting most governments in the world...especially in the countries of the so-called "Third World," in other words, finding the money to do what has to be done... Instead, it had to decide what to do with the capital it had available, which exceeded the budget forecasts made as recently as July and October of the year before. In 1980 we can now examine in retrospect this situation of insane fiscal prosperity, which triggered an unheard of prosperity in the national spending mania.

Referring to the tables, we see that all Venezuelan governments combined, from 1900 to 1957, took in 118.388 billion bolivars (in updated 1979 values), or $27.532. This was over 57 years. The administrations from 1958 to 1973, 16 years, took in 310.388 billion bolivars ($72.177 billion), and the government that was inaugurated in March 1974 and handed over power in March 1979 (with Mr C.A. Perez as president) took in 357.602 billion bolivars ($83.163 billion) in just 5 years. To place all this in terms proportional to the population, per capita government spending over the 5 years of Mr Perez' administration was double the average outlays of the previous 15 years, was 3½ times greater than during the period from 1949 to 1973, 5¼ times more than from 1946 to 1948, 11½ times more than from 1935 to 1945 and 27 times more than during the 26 years of the Juan Vicente Gomez dictatorship.

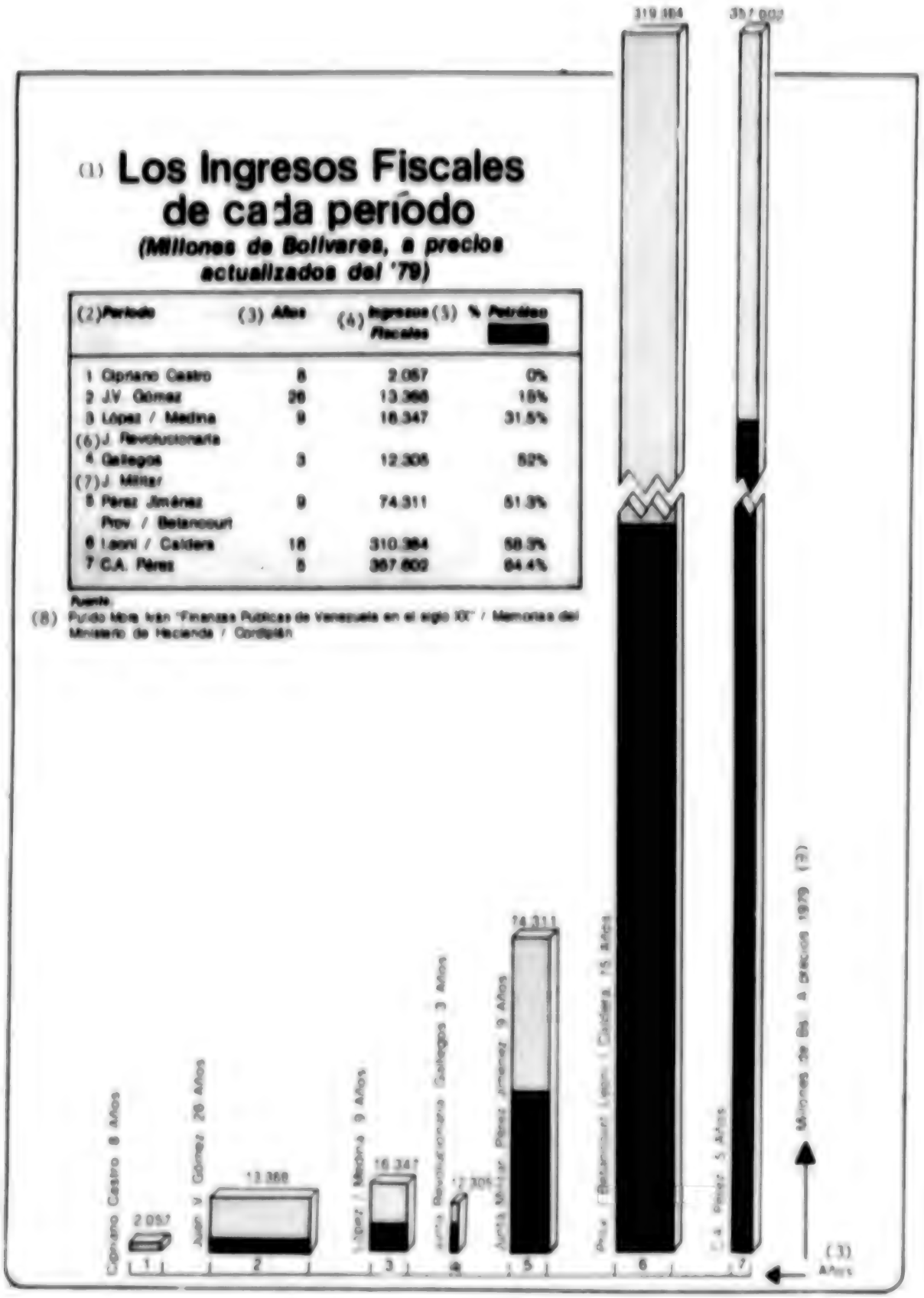
(1) Los Ingresos Fiscales de cada período

(Millones de Bolívares, a precios actualizados del '79)

(2) Período	(3) Años	(4) Ingresos Fiscales	(5) % Petróleo
1 Cipriano Castro	8	2.057	0%
2 J.V. Gómez	26	13.368	18%
3 López / Medina	9	16.347	31.5%
(6) J. Revolucionaria 4 Gallegos	3	12.305	82%
(7) J. Militar 5 Pérez Jiménez Prov / Betancourt	9	74.311	51.3%
6 Leoni / Caldera	18	319.384	58.3%
7 C.A. Pérez	5	357.602	64.4%

Fuente

(8) Pedro María Iván "Finanzas Públicas de Venezuela en el siglo XX" / Memorias del Ministerio de Hacienda / Contraloría



Key:

1. Government revenue during each period (billions of bolivars, in updated 1979 values)
2. Period
3. Years
4. Government revenue
5. Oil
6. Revolutionary junta
7. Military junta
8. Source: Pulido Mora, Ivan, "Venezuelan Government Finances in the 20th Century"; reports of the Finance Ministry; CORDIPLAN [Office of Coordination and Planning]
9. Billions of bolivars in 1979 values

Years	President or Government	Number of Years	Per Capita Spending*	Government Revenue (billions)	% Oil
1900-1908	Cipriano Castro	8	99	2.057	0
1909-1935	Juan V. Gomez	26	173	13.368	15
1936-1945	Lopez/Medina	9	404	16.347	31 3
1946-1948	Revolutionary Junta, Gallegos	3	879	12.305	52
1949-1957	Military Junta, Perez Jimenez	9	1,336	74.311	51.3
1958-1973	Provisional, Betancourt, Leoni, Caldera	15	2,194	310.364	58.3

*All amounts are in 1979 values
Source: Pulido Mora, Ivan, "Venezuelan Government Finances in the 20th Century"; Finance Ministry reports; CORDIPLAN

Years	President or Government	Number of Years	Per Capita Spending*	Government Revenue (billions)	% Oil
1974-1979	C.A. Perez	5	4,633	357.602	64.4

*in 1979 bolivars

VI. Rather than an explanation or a response to the charge that is implicit in these comparisons, we should ask the following questions: Has this oil-producing country that has enjoyed extraordinarily high government revenue from the depletion of a national asset pursued a proper development strategy? Has the oil been "sown" in the real meaning of this expression? Is Venezuela a more "independent" country now? Or, on the contrary, is it not dangerously dependent for its survival on a single source of income, subject, as history has shown, to events totally beyond its control? Are Venezuelans today healthier, better educated and do they enjoy better living conditions commensurate with the expenditures that their governments have made in using the revenue from oil output?

These are the anguished questions that come up when one examines the development strategies that Venezuela has pursued since oil appeared on the scene, as well as the ones that have been proposed or modified as political changes took place. As far as this last point is concerned, contrary to what a number of historians would have us believe, the fact is that development models have not changed radically over the half century during which succeeding Venezuelan governments have had access to increasing amounts of money from oil sales. There are, of course, differences, which can be clearly seen in the percentages devoted to "social outlays." In addition, the statist model, in connection with the so-called "basic industries," has been a constant since 1950, when the first steps were taken to set up the iron and steel and petrochemical complexes. The trend since then has intensified and become irreversible. The Venezuelan State today owns more than 300 "decentralized agencies," so called because they are independent of the Treasury or the government departments proper. In a bid to copy U.S. agencies, the Venezuelan State has established hundreds of state-run enterprises and autonomous institutes, ranging from INOS [National Institute of Sanitation Works] and SIDOR [Orinoco Iron and Steelworks] to banks, airlines, hotels, bus lines, etc. The bottom line on this trend is clearly negative. The annual reports of the General Comptrollership of the Republic contain, year after year, sad examples of administrative chaos, accounting slipups and unheard of waste and embezzlement. In practically no instance has the shareholder in these enterprises, the state, made a profit. Particularly tragic is the case of petrochemicals, which throughout the world are a marvelous multiplier of their raw material, oil, but which in Venezuela have been a source of enormous losses, waste and corruption. All of this has led us to the following simplified description of the Venezuelan development model: a model that has always equated government oil revenue with national wealth and paid tribute to the fetish of capital or administrative expenditures, whether productive or unproductive, as a condition for development. In oil-producing Venezuela, governing has meant spending, and spending has been the illusory magic solution to our problems.

Many Venezuelans and several foreigners have clearly noticed this. Nobel Prize winning economist Vassily Leontiev warned about the dangerous illusion of some Venezuelan "planners" who were delighted that Venezuela was one of the countries with more than $2,000 in annual per capita income, the first Latin American nation to surpass this "mark," which is regarded as a "symptom" of the so-called "developed" countries. Leontiev did not hesitate to place Venezuela in the group of economically weakest countries, on account of its very low agricultural income and productivity, grotesquely distorted by the ongoing depletion of an unsalvageable national asset such as oil. Leontiev backed his assertion by noting that the 1975 gross domestic product (in current values) totaled 124 billion bolivars, of which agriculture accounted for just 6.944 billion, or 5.6 percent. According to Leontiev's line of reasoning, Venezuela is an extremely backward and, moreover, dangerously weak and vulnerable country.

This backwardness and this weakness are dramatically clear-cut today, but they were no less so in 1973, on the eve of the biggest jump in government oil-based revenue. Towards the end of that year the Congress passed President Caldera's last budget, for the year 1974, which he was to execute for one quarter only, inasmuch as under Venezuelan law the winner of the December 1973 elections was to take office in March 1974. During the Caldera administration oil production

had reached its highest levels in history (3.715 million barrels a day in 1970). Realized crude oil prices recorded modest gains in 1972 over the previous year, from $0.48 to $0.67 a barrel, and the same was the case in 1973 before the events of October, which led to the highest revenues that any government had had until then. In addition, the national debt also increased to 7.136 billion by the close of the period. Government spending rose in equal or greater proportion, thus confirming Venezuela's tendency throughout its oil history to spend as much as it takes in...and then some.

Inflation also knocked at the doors of an administration that was in the minority in Congress, and it resorted to a tactic that has been especially commonplace over the last 20 years: subsidizing food producers or importers and artificially holding back prices to consumers. Enormous amounts of money are used up this way. When the budget for 1974 was passed during the second half of 1973, no one, repeat, no one even dreamed of what was going to happen. The budget was being criticized at the time for exaggerating estimated expenditures and perhaps for overplaying estimated revenues. A total budget of 14.585 billion bolivars was passed. After the events of October 1973, we found out by early 1974 that actual revenue would total 42.519 billion. Three times more! When the 1974 budget was passed, however, the Arab-Israeli War was merely an episode with terrifying prospects; it did not hold out the promise of torrents of money. The outgoing administration that was to hand over power to the winner of the December elections (the campaign was in full swing) had spent, overall, the colossal, unprecedented amount of 130 billion bolivars. The government had spent 30 billion bolivars over the 9 years of the Military Junta and the Perez Jimenez dictatorship (1949-57). Romulo Betancourt's administration (1959-64) had spent a total of 45 billion in 5 years. The next administration, Raul Leoni's (1964-69), spent 75 billion in all. In other words, Rafael Caldera's administration had spent more money in 5 years than the two democratically elected governments that came before him. Looking back, however, the same could be said of Raul Leoni's administration in comparison to its predecessor, and about Betancourt's and so on back to the days at the beginning of this century when Venezuela was a poverty-stricken country humiliated by the guns of the battleships that came to collect their debts. What is important here is not the size of the revenues but to realize that they stemmed not from the creative labor of Venezuelans but from the greater extraction of a nonrenewable resource and from the increasing profits that this yielded, as well as to investigate whether the money thus invested has been commensurate with actual results. If the continual efforts to obtain increasing revenue from this resource resource are noteworthy in bringing about the virtual emancipation of a semi-colonial state, especially after the 1943 law, and if the efforts to forge an alliance with the other oil-producing countries to prevent exploitation, an alliance that jelled with the creation of OPEC, deserve our every recognition, can the same be said about what was done with the results of these efforts? It would be unfair and erroneous, at this point, to start with the premise that the administrations and leaders involved have been evil and corrupt.

But it would be equally erroneous to deny the cruel truth that the social disgraces of backwardness, hunger, inequality, ignorance and technological underdevelopment are still stubbornly rooted in Venezuela, in spite of the increasing amounts of money that have been spent.

There have, of course, been gains. Endemic diseases are disappearing. Syphilis and malaria, among others, have been eradicated through well-thought-out and implemented public health programs. The average life expectancy of Venezuelans has risen over the past 35 years. At the same time, cities and rural areas are beginning to show the results of better roads. Highways and bridges have been built. Cities have grown skyward, etc. On the other hand, however, a poverty belt has been created around them, as Venezuelans and, recently, people from neighboring countries, have migrated to urban areas, and their public health, safety and sanitation conditions present an atrociously stark contrast with the concrete labyrinth of skyscrapers and highways.

Rafael Caldera

There is an appearance of progress. There are certainly external signs of industrialization. But the state-run iron and steel industry has made a profit only when world markets have been favorable, and the bottom line since its creation has been negative. The petrochemicals industry, which is also state-run, has been a catastrophe, and there is no concealing the embarrassment that despite possessing the raw material and having invested and lost huge amounts of money in the industry, Venezuela still has to import and, moreover, subsidize fertilizers.

The list could go on, but the conclusion is the same: Venezuela's industrial structure is false, artificial and extremely vulnerable. But the real question, the essence and core of this monograph, is finding out whether per capita

government spending or total per capita government spending has made adequate headway against the key social problems that make Venezuela a backward, weak and vulnerable country. We have done the arithmetic to show that total public spending under Rafael Caldera's administration outstripped that of the two previous governments and that their spending exceeded their predecessors' and that the government spending of all the administrations in the "democratic" period up to Caldera (1958-73) was greater than during the preceding 57 years of the 20th century and that spending from 1974 to 1979 surpassed them all combined. Here lies the terrible accusation that all of this spending has for some mysterious reason been useless to a great extent or, stated in different terms, that the social results have been inordinately minor. Somewhere, somehow, for some reason, much of the power of capital resources to accomplish things has dissipated, withered, evaporated. And we must stress that this money came from the extraction of a nonrenewable resource or, to put it differently, an irrecoverable national asset. Aside from this, our agricultural backwardness is perhaps the most serious charge against government. The growth and consolidation of the oil industry cannot be blamed for the stagnation in farming and livestock raising. These are independent developments, and one of them has been a dramatic failure. The result is that Venezuelans seem to be taking oil out of the ground because they are unable to grow the foods that they consume there. In other words, we Venezuelans are eating our oil; we are not sowing it. This clear-cut absence of a tie-in between government spending and the gross domestic product has been noticed by many distinguished Venezuelans but not, apparently, by any politicians. At least it has not been addressed as a basic economic policy problem by any party or administration in its development strategies. In 1972, Andres German Otero, a distinguished Venezuelan who had done a fine job as finance minister during the difficult days of President Romulo Betancourt, prepared some observations about the relationship between government spending and the gross domestic product. He put them in the form of a simple graph that clearly showed that real public spending was not commensurate with the gross domestic product and that, furthermore, the agricultural GDP reflected the dramatic disparity that led Leontiev to single out Venezuela as one of the world's most backward, weakest and most vulnerable countries. This fact was mentioned when the Fifth Plan of the Nation was drawn up in 1975, making note of these others as well:

--Seventy percent of the Venezuelan population does not meet its minimum nutritional requirements.

--Infant mortality is 54 per 1,000 births.

--Forty-seven percent of housing units do not have drinking water.

--Fifty percent of housing units do not have plumbing.

--Twenty-three percent of housing units do not have electricity.

--Twelve percent of the population shows symptoms of serious mental retardation.

--The state invests 73 percent of its funds in capital and only 23 percent in its workers.

Perhaps the most serious indictment against government spending as a panacea for social ills is that there is a frighteningly high number of children in Venezuelan society who are abandoned or semiabandoned. It is not within the purview of this essay to delve into the reasons for this. Let me just point to the following for now: the breakup of the family unit due to peasant migrations to the city, the legal and social defenselessness of women, the promiscuity fostered by poverty, the absence of a population policy, irresponsible fatherhood, etc. Statistics and surveys show, in fact, that more than two million under age children are wandering about abandoned in Venezuelan cities. Dr Mendoza Pimentel, a member of the Penitentiary Reform Commission, asserted in 1974 that:

"Any person who ponders what this means must realize that this is the real challenge facing the country...We are obsessed with development and we think that it is synonymous with roads and highways. But if we do not develop man, if we do not attend to his education, his health, his attitude towards the world, his abilities and his inner training, we are not developing this nation. We are fooling ourselves childishly and superficially by doing otherwise...In this beloved and confused nation that has still not realized what its great objectives are and that wastes much of its times on trivialities, governments and the ruling classes almost never strive to achieve essential goals, not even to enjoy the simple satisfaction of listing basic priorities. We are confusing an incidental, gratuitous fiscal bonanza with true wealth and we continue to theorize...This bitter contradiction is perhaps one of the best indicators of our underdevelopment, of our immaturity and of the nonexistence of a stable, institutionalized country."

The lack of a tie-in between heavy government spending and a solution, even if partial, to some of our most serious social and human problems, as well as to the issues inherent in economic progress, has been clouded, when explanations have been sought, by continual political jousting, with short-sighted politicians and governments blaming all ills on perverse adversaries. Thus, the revolutionary government that replaced the Isaias Medina Angarita administration in 1945 focused all of its analytical efforts on justifying its moves by blaming the previous government. The military government that toppled it in November 1948 did likewise, and so did the Betancourt administration, returning to power in 1959 after 10 years of authoritarian rule. At that time, the Perez Jimenez administration (1950-57) was criticized for having utilized oil-based government revenue in a policy of "transforming Venezuela's physical environment," in other words, expressways, bridges, dams, low-cost housing, while ignoring education, health care and agriculture. From 1959 on, the Social Democratic governments of Betancourt and Leoni (Democratic Action) and the Christian Democratic government of Rafael Caldera (COPEI [Social Christian Party]) emphasized, or tried to, added social expenditures to attack Venezuela's human problems at their root; that was their intention at least. As we have mentioned, total government spending under them was almost double, in 1979 values, that of all previous governments since 1900, and to judge by the criticisms voiced by the people who succeeded the Caldera administration in 1974, little or nothing had been achieved, and in many respects traditional ills had been compounded by new ones. Few people realize, when voicing criticisms in the heat of an election campaign, that the evils they are pointing to cannot be blamed

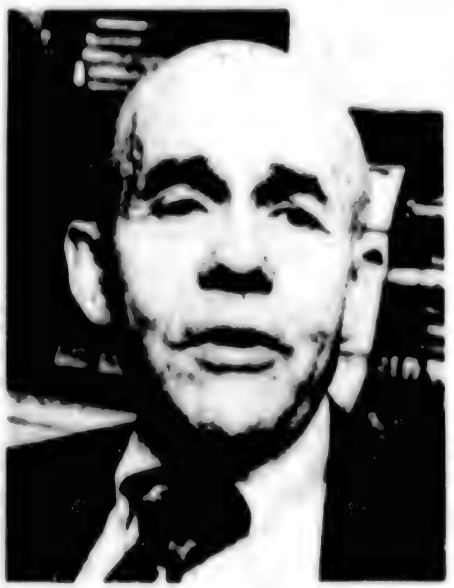
exclusively on the administration that they are trying to defeat at the polls. Also, very few people give serious consideration to the possibility that the basic model of government spending in oil-rich Venezuela is radically wrong.

My hypothesis in this essay is that this basic model has had certain constant features ever since oil came on the scene in Venezuela. The features boil down to...spending!...as a synonym for progress. And not just spending on things like shoes for the army, buildings for government agencies, etc. I am talking about "pharaonic" spending, as represented in the 20th century not by Egyptian pyramids but by enterprises that are a "status symbol" of an advanced country: airlines, iron and steel complexes. All of this causes governments to lose contact with Venezuela's actual modest dimensions, as they allow themselves to be carried away by the eternal hawkers of baubles, who with the cunning characteristic of colonialist or imperialist experience succeed in wheedling the officials of suddenly wealth administrations not into taxing their citizens but into extracting (which hurts no one) a resource that has been buried in the bowels of the earth by geological chance. The basic model is spending as the panacea for all ills, and the standard procedure, especially since 1950, is consistent with a socialist-nationalization model that is somewhat heterogeneous but substantially identical to those of the nations that reserve practically all economic activity for the state. Thus, the corrective mechanisms of the marketplace, of competition, of the efficiency of private capital have no moderating effect whatsoever. Since the money of state-run agencies hurts no one, it is merrily and irresponsibly squandered. This has been the constant pattern of every administration, and it would unfair, dishonest and foolish to exonerate some and condemn others.

These assertions could lead us to discuss, from irreconcilable axiomatic stands, whether the state is inherently inept in running enterprises or whether capitalism is inherently perverse and selfish and can thus be economically efficient but socially insensitive. This is certainly an interesting and even basic debate, but it is irrelevant to the following simple arithmetic operation: subtracting from government revenues those that it allocates to create or prop up deficit-ridden enterprises and earmarking them for the functions that only the state can really perform, such as caring for the elderly and helpless, children and the poor, building public works and providing public services, defense, justice, the prison system, etc. From the enormous sums spent by governments that have left Venezuela's most acute social problems intact and have exacerbated some and created other new ones, we would have to take away the money that has been frittered away on enterprises that could well have been started up by the private sector and even (why not?) "evil" foreign investment. Thus, to the billions in tribute we have paid to the fetish of government spending, which alone, it is thought, will produce prosperity; to the additional billions we have paid to the fetish of bureaucracy, we must add the billions paid to the fetish of the do-it-all, have-it-all, know-it-all state. These have been constant features of all Venezuelan governments, ever since the first million bolivars came in from exported oil. And although we have risen up from ignominious exploitation as a mentally and politically semicolonial country to self-respect and dignity, to the point that we control this resource completely,

at least on the home front, the investment of the revenue from it to create alternative or substitute sources of wealth or to improve our people morally, intellectually or materially has been a lamentable and tragic failure.

Few, very few people have seen in its true dimension the tragedy of this unique opportunity that has been squandered. Juan Pablo Perez Alfonzo, who died in September 1979, stands out among them. He called what we are trying to describe the "Venezuela Effect." More than anyone else, he spelled out its worst shortcomings and drew a very interesting parallel between the "Venezuela Effect" and other oil-producing countries, Algeria and Iran in particular.



Juan Pablo Perez Alfonzo

The "Venezuela Effect" is much more than simple, albeit tragic, boondoggles. Perez Alfonzo sees this "effect" as a virtual "petroleum indigestion," involving not only an indigestible flood of capital but also a series of related effects, not the least of which is a euphoria characteristic of inebriation, which, like alcohol, produces a joyous optimism and clouds a clear understanding of what money can but above all what it cannot do. The disconcerting disparity between government spending and the gross domestic product was noticed by Perez Alfonzo, who so often spoke up about it like a voice crying in the wilderness.

"The results of government spending over the past 25 years are clear to see: waste and inefficiency, regardless of the administration. The problem is obviously something inherent to the petroleum process we have experienced. In 1975, real government spending was up by almost 7.5 times its already high level of 1950, but Venezuela's GDP had risen less than 4.2-fold, defying the economic logic that public spending is a multiplier of a nation's overall economic activities, as reflected in its GDP.

"The most serious development, nevertheless, particularly in a traditionally hunger-stricken country with a high population growth rate, is that agriculture has lagged sadly behind. Over 25 years of an oil bonanza and of billions of bolivars wasted in unsuccessful attempts to reactivate the nation's food base, the increase was only 3.5-fold, much less than half the rise in spending. In absolute amounts it rose from 1.211 billion in 1950 to 4.278 billion in 1975, whereas government spending jumped from 2.811 to 20.91 billion over those same years. This is a striking and alarming development. Let us hope that it teaches us a lesson!

"I feel that the explanation of this disconcerting phenomenon, both with regard to the GDP and the agricultural GDP, is to be found in the country's economic indigestion. By 1950 we had been for more than 20 years under the distorting influence of government spending that was being increasingly covered by supplementary revenue not collected from the proceeds of normal economic activities in Venezuela. The alleged multiplier effect of public spending, which like everything has certain limits, had already come through and had even perhaps begun to decline. The facts show that what I feared would happen did happen. The truth is that we Venezuelans, like any other nation, have certain characteristics that give us specific production capacities. These capacities require certain amounts of capital for optimal use. Our oil enabled us to have available capital which for years exceeded the amounts commensurate with our capacity for efficient utilization. This is why for years now we have been suffering from economic indigestion, because we wanted to believe that we would boost output only through more capital. The opposite has happened and is happening. The excess has led to a continually declining yield, to the extreme that seven and a half times more capital in government spending has resulted in just three and a half times more agricultural production."

VII. On 26 October 1973, after great effort, the UN Security Council succeeded in imposing a cease-fire. Militarily speaking, the war had perhaps been halted at a juncture favorable to Israel. Psychologically and politically, it was the first Arab victory in the 20th century. In the months and years preceding the conflict, the Congress and the administration in the United States had been amply warned from all sides about the vulnerability of its economy due to the country's excessive consumption of oil. Moreover, the forecasts of the Club of Rome and the Hudson Institute were that fossile fuels would soon run out if the present pace of consumption continued. The world's leading oil exporter, Saudi Arabia, had tried in vain to convince the United States of the need to cut its output. Its capital requirements had been far outstripped, and keeping its petroleum in the subsoil was obviously the most rational course of action. It had gotten nowhere and continued to be pressured to produce more. The fourth Arab-Israeli war would suddenly trigger what had been predicted and requested. Then came the time for lamentations and the bleakest of predictions. The National Petroleum Council estimated the cost of the Arab oil output cut to the United States at $48 billion (206.4 billion bolivars). It forecast a 3.4 percent drop in the United States' GDP and an unemployment rate of 6.2 percent in the event that the fuel shortfall remained at 2 million barrels. If it hit 3 million, joblessness could rise to 7.7 percent. For their part, Professors Klein, Green and Adams from the Wharton Econometrics Institute of the University

of Pennsylvania predicted recession and inflation as the consequences of a three million barrel shortfall. They spoke in cataclysmic terms of "substantial changes in the normal relations of industry and commerce." While the economists made predictions, the politicians took action. On 7 November, President Nixon decided to ask the American people to limit their use of energy somewhat. This "voluntary" program, seen from an overview, is symptomatic: the country that consumed half of the world's oil output while having just six percent of its population was being asked to reduce the speed of its cars and trucks a little bit and to turn down the thermostats in its houses a few degrees. These "sacrifices" would save 2.3 million barrels a day. Venezuela's total output! In any case, however, thus began the era when people became aware of the world's limited oil resources, the beginning of the end of the irresponsible greed with which the industrialized countries, led by the United States, were devouring them up to that point.

While this was going on in the world, Venezuelans were immersed in a noisy, carnival-like and bewildering election campaign. For the first time in its history, American "experts" in "forming" public opinion had been hired, and the Venezuelan election campaign showed all the shortcomings of the dangerously swollen political advertising expenditures that were to constitute one of the basic causes of the extraordinary civic revolution known as the "Watergate Affair." Finally, on 9 December 1973, 64 days after the beginning of the fourth Arab-Israeli war and just 3 weeks after the first "voluntary" gasoline rationing in the United States since the World War, 4,308,713 Venezuelans over age 18 went to the elections boards to cast their ballots. Some 36.75 percent of them voted for Lorenzo Fernandez (COPEI), a Christian Democrat backed by the government; 48.6 percent voted for Carlos Andres Perez, from Democratic Action (Social Democratic), who was thus elected president of the Republic of Venezuela for the 1974-1979 term. Third place was taken by the recently formed Movement for Socialism Party (MAS), a radical socialist party that got just 5.25 percent of the vote.

It was the fourth time since December 1958 that Venezuelans were exercising their right to vote. On this occasion, 75 percent of them chose the two major parties: Democratic Action and COPEI. The parties that could be placed in the general category of the "left" received, all together, just 12.45 percent of the vote (MAS, 5.23 percent; MEP [People's Electoral Movement], 5.02 percent; the Communist Party, 1.19 percent, and MIR [Movement of the Revolutionary Left], 1.01 percent). It was third time in four elections that the party in power had been defeated. The only time that a president handed over power to a fellow party member was in 1964, and on that occasion the winner had garnered just 32.8 percent of the votes. In other words, two-thirds of the country had voted against the government that time too. There has been a great deal of speculation about this, which would seem to be a pattern of rebelliousness among Venezuelan voters. None of the analyses that have been made can assert that such reactions among the electorate were prompted by adverse economic conditions. Nothing in the Venezuelan economy, at least the economy fueled by the government's revenue, from 1958 on could be termed "adverse." As we have seen in preceding sections, income has been steadily on the rise. During the years of democracy, from 1958 to date, administrations have had available more capital resources than all

governments in Venezuela's history put together...in absolute terms, of course, but also in terms relative to the population. Nonetheless, in election after election, from the first one in 1958 until the the most recent one in 1978, the governments have been systematically rejected by the electorate. Why? Venezuelan politicians in particular, and Latin American politicians in general, are quite inclined to attach a very high value, for public opinion purposes, to the abstract principles of the different systems of government. Wars were fought last century for or against "centralism" or the "federation" or the "legality" or "illegality" of the "status quo," etc. The pattern has changed very little, especially in the minds of politicians. Over the past 20 years, politicians have spurred their imaginations to provide public opinion with a more appealing, more magical, sexier abstraction. When they make it into the government and have to administer the resources that oil (if not the taxpayers) puts at their disposal, their first, irresistible impulse is to spend them on "resolving" social problems. And that's what they do. But what a surprise they get! Every time that they order studies as the groundwork for programs, they disclose that the most acute social problems (malnutrition, lack of public services, underprivileged conditions, economic inequality, abandoned children) still remain, like real-life phantoms that the magic spell of government spending cannot banish. Furthermore, the fetishism of government intervention has also had its impact. When the government endeavors to resolve the housing problem and intervenes in the construction market or in housing rentals, the result is diametrically opposed to what was sought. The problem is not only not alleviated; it is aggravated. The paradoxical, astounding result of its policies is inequality, the anathema of all democratic, not just socialist, systems. The gap between the rich and the poor widens, and in between the always long-suffering middle class sees its hopes of improving the quality of life through savings and hard work fade.

The rich get richer, the poor get poorer, and the money earmarked for all sorts of enterprises, for the ongoing expansion of the bureaucracy is thus unavailable to meet the most elementary social needs and to perform the functions that are inherently the government's. The state, which wants to do everything, winds up not even being able to do what it is supposed to: law and order, justice, water, transportation, child care.

If we accept the premise that elections are the method by which a society judges its governments, then we must conclude that the people of Venezuela have judged their governments very harshly each time that they have been given the opportunity to vote. In this respect, the 1973 election must be interpreted as an adverse judgment of the Rafael Caldera administration and to a certain unmeasurable extent, of the charisma and message of the candidate put forth by his party to succeed him. Such a conclusion would appear to be contradicted by the opinion polls and surveys according to which, in spite of the 1973 defeat, Rafael Caldera is a widely respected and much esteemed figure. But there is no contradiction! How poorly the wisdom of the people is judged! No one has ever said that Caldera or, for that matter, the other presidents from 1958 to 1973 who were beaten at the polls are themselves contemptible, censurable or evil. What we are dealing with is a mistake, a basic, longstanding, repeated and constant mistake in the orientation of government spending, in the utilization

of the capital resources that oil production furnishes in increasingly generous amounts to all governments, one after the other, and that they spend without hesitation and that nonetheless leave the living conditions of the masses intact. If this is the case, and it is, how can we expect the results to be favorable to our governments? How can we be surprised by the outcomes of Venezuelan elections? Can we attribute this behavior at the polls to a peculiar intractability or rebelliousness among Venezuelans that predisposes them against all governments? When the Fifth Plan of the Nation was drawn up in 1975, the following general statement was made, supported by more detailed reports, data and statistics:

"With regard to Venezuela, we must take into account the dangers involved in a deteriorating quality of life among the population and, in particular, among the lower income masses. Despite the gains in a number of indicators of well-being during the 1960-1974 period, such as education, health care and housing, the country's social conditions were still marked by heavy liabilities in terms of malnutrition, infant mortality and illiteracy, which were not consistent with the rise in income in the economy. It was brought to light in early 1974 that of each bolivar of income generated, 27 cents came from labor and the remaining 73 cents from capital. The destructive effects of this situation were reflected in the fact that at the outset of the current constitutional term of office, about 70 percent of the population did not meet its minimal nutritional requirements, suffering from significant calorie and protein deficiencies, while 5 percent of the population took in almost a quarter of total income, and 25 percent purchased half of the consumer goods on the domestic market. Such conditions translated into the fact that more than 12 percent of the population showed some symptom of mental retardation, while the infant mortality rate hit 54 per 1,000 recorded births."

A case could not be presented with better evidence. The preamble to the Fifth Plan of the Nation hit upon the real reason why Venezuelans have again and again rejected the governments to which they have entrusted the administration of the country's oil wealth. And on this occasion, this dramatic and unique occasion, the Plan of the Nation was drawn up by the government that enjoyed the highest revenue in the country's history and that, moreover ruled amid the highest degree of social peace, institutional stability and even collective enthusiasm stemming from the extraordinary and very justified expectations prompted by the sudden boom in oil revenue in the wake of the October 1973 war. There was nothing like it in Venezuela's history. Between the closing months of 1973 and 1976, the Venezuelan economy underwent the quickest and most profound change in scale in its entire history. It was perfectly justified and natural for the country to feel electrified and enthusiastic about what it thought it could and had to do with this revenue. What happened in the succeeding 30 months could be compared only to what happened in the previous 30 years. Between 1973 and 1975, government revenue tripled, foreign exchange earnings quadrupled, the Central Bank's international reserves quintupled, and the GDP doubled. The impact that this was to have on total state revenue, compared with foregoing administrations, was enough to take one's breath away. As has already been mentioned, in 1979 values, the government elected in December 1973, spent a total of 357.602 billion bolivars ($83.163 billion).

In his inaugural address President C.A. Peres announced that:

"We are going to fulfill our people's longstanding aspiration to make our oil Venezuelan. There are various legal provisions to guarentee the reversion. But today we consider it advantageous to speed up the process so that once and for all we can establish the new national and nationalist petroleum policy."

Carlos Andres Perez

With regard to the abundance of revenue, he announced that:

"The abundance of revenue obliges us to proceed prudently. An excess of liquidity will have harmful effects on our entire economic system. We will have to manage our investments conscientiously so that the wealth that came into our hands so suddenly does not slip through them futilely.

"A special diversified investment fund inside and outside Venezuela will absorb the largest portion of the new revenues and will channel them towards specific, concrete goals, as far removed as possible from greedy, temporary consumption."

He also asserted that: "We will not allow ourselves to be influenced by the illusion of loose monetary policies to indulge a squandering of money on imports,

which is so consistent with our mentality as a mining country. Nor will we be influenced by apparent solutions to the imbalances that world inflation causes in the costs of imported raw materials and foodstuffs."

As to agriculture, he announced that: "Since the government's priority objectives are to rebuild agriculture and consolidate the agrarian reform, purged of corruption and mistakes, fundamental importance will be attached to the building of projects needed to boost production and productivity and to expedite the distribution and marketing of farm products. To this end, we propose to undertake ambitious water resources development and rural roads projects, and we will also place special emphasis on projects to reclaim farm land subject to flooding and with poor drainage, all of this according to the guidelines set forth by the National Water Resources Development Plan."

He had this to say about public services: "Public services in Venezuela are unreliable. This is a characteristic of an underadministered country. One of the services with the poorest performance is Obligatory Social Security, which will undergo an in-depth reassessment in terms of its conception and operations. A list of Venezuela's administrative shortcomings would be endless. I want to make only a general reference to one of the areas that most affect the lives of citizens. Citizens are users of services, and a democratic country ought to offer them these services punctually, decently and efficiently."

His approach to the planning of all this was as follows: "Democratic planning must lead us towards a government spending policy whose hallmark is austerity and efficiency. Venezuela cannot give itself over to carefree consumption and the squandering of its energy resources.

"Democratic planning must also place public spending within thoughtful limits so that investments are more than just incidental and temporary.

"A democratic regime is identified with a state of law, which is always in a position to innovate, t change and to adapt to new conditions. Democratic renewal is a building process that never ends, because it involves constant improvements over days and years. Many institutions are about to be modified because they require immediate changes. Many laws are waiting to be examined, drafted, debated or passed. A constitutional system cannot develop unless there are laws and regulations to complement it. The Houses of the Legislature, which are beginning their work, have before them essential tasks and responsibilities, and I offer them our broadest cooperation to these ends."

He then concludes with: "During the 5 years of my term, the people of Venezuela will keep this notable appointment with history. We will have in our hands all of the tools to decide our future. This is the grandeur to which destiny calls us. The generations that come after us demand these actions of us today. If we are victorious, we will occupy a place of honor in history."

Four years and 9 months later, on 3 December 1978, the candidate backed by this administration, which had begun with such impressive and enthusiastic words and with such auspicious means for making them a reality, was sent down to an

election defeat by the people of Venezuela. The prior months and years had been a whirlwind of boondoggles, corruption, scandals, slayings, abuses and insecurity. For the first time in 50 years the Central Bank recorded a balance of payments deficit. Even though the Venezuelan Constitution prohibits deficit spending and stipulates the inflexible obligation to balance outlays and revenue, the 1978 and 1979 budgets were unbalanced and in the red.

Impact of Oil on the Change in Economic Scale (Billions of Bolivars)

	1972	1975	1972=100
Gross domestic product	63.112	124.072	197
Agriculture	3.937	6.944	176
Petroleum	14.682	46.612	290
Manufactures	7.713	13.709	178
Construction	3.086	6.218	201
Services	32.160	51.994	162
Consumption expenditures	40.597	71.165	175
Gross capital formation	15.783	31.551	200
Imported goods	9.471	22.827	241
Imported goods and services	12.595	30.357	241

The Change in Scale

	1972	1973	1974	1975	1972=100
Daily production (millions of barrels)	3.22	3.37	2.98	2.35	73
Average realized price ($U.S. per barrel)	2.60	3.79	10.42	10.90	419
Government export price (average)	3.13	4.56	14.35	13.74	439
Government revenue per barrel exported	1.65	2.29	8.50	9.68	587
Foreign exchange revenue (in billions of dollars)	2.190	3.044	9.377	8.546	390
Treasury revenue	7.884	11.182	31.655	27.690	451

Growth of State-Run Enterprises (Annual Expenditures in Billions of Bolivars)

		Growth Indices		
Year		1960=100	1970=100	1974=100
1960	1.758	100		
1966	4.560	259		
1970	6.963	396	100	
1974	25.992	1,478	373	100
1975	36.424	2,072	523	140

Total Public Sector Expenditures in Venezuela (Percentage Breakdown)

	1960	1970	1975
Central government	54	37	20
Regional government	7	6	5

	1960	1970	1975
Municipal government	9	5	3
Government	70	48	28
Administrative agencies	7	12	8
State-run enterprises	23	40	52
Decentralized agencies	30	52	60
Total public expenditures	100	100	88
Contributions to special funds	0	0	12
Total public sector expenditures	100	100	100

The Budget (Billions of Bolivars)

Revenue	1972	1975	1976(est)	1972=100
Petroleum	7.884	31.655	27.690	351
Other	4.662	9.346	9.844	212
Total	12.546	41.001	37.534	299
Expenditures				
Current expenditures	7.179	15.914	17.660	246
Capital expenditures	5.061	14.015	11.802	233
National debt	.592	1.033	2.014	340
Actual expenditures	12.842	30.962	31.476	245

Expenditures Budget (Billions of Bolivars)

Year	Current Expenditures	Investment Expenditures	National Debt	Total
1972	7.179	5.061	.592	12.842
1973	8.644	5.727	.660	15.042
1974	13.331	23.910*	2.818	40.059
1975	15.914	23.423*	1.033	40.370
1976 (budgeted)	17.167	13.860*	2.014	33.041
(revised)	17.660	17.860(a)	2.014(a)	37.534 (a)

(a) Includes 4 billion bolivars in additional credits, 1 billion for the purchase of frigates, 500 million for the Urban Development Fund and 2.5 billion for the Venezuelan Investment Fund; excludes 4.292 billion in refinanced liabilities.

The national debt, the source of so much anguish and humiliation in Venezuela's history, had been hiked to incredible levels. Servicing on it alone exceeded the entire expenditures budget of Rafael Caldera's last year in office, an administration that was so harshly criticized during the election campaign that led to the victory of the current president. The most serious thing about it was that the official figures supplied by the Finance Ministry to the Central Bank did not reveal its entire scope. In September 1979, the new president, Luis Herrera Campins, spoke to the nation in a solemn television address and disclosed that a recount of the debt placed it, at the time, at

more than 100 billion bolivars. This 100 billion bolivar debt could not be justified by an administration that had received more money in the form of direct oil-based government revenue than all preceding administrations of the last 20 years put together and that had spent the colossal total of 450 billion bolivars ($104 billion), including the expenditures or liabilities of state-run enterprises. History was repeating itself. The new administration's "preliminary evaluation" in July 1980 stated that:

"Although the gross domestic product in constant 1968 values increased during the period under analysis at a seven percent annual rate, which is close to the pace called for in the plan, the same was not the case with developments in the various economic sectors. The output of the agricultural sector rose at a rate of just 4.4 percent, far below the 9.4 percent envisaged in the plan for the 3-year period. For its part, the output of the manufacturing industry, excluding oil refining, rose at an average rate of 7.5 percent, in contrast to the anticipated growth rate goal of 13.8 percent. This resulted basically from the growth recorded over the 3-year period by traditional industries (4.4 percent) and intermediate industries (9.4 percent), in which the plan had envisaged increases of 10.2 and 19.1 percent respectively. In addition, the engineering industries performed irregularly during the period under study; nevertheless, it recorded an average yearly growth of somewhat more than 13 percent over the 3 years, which compares favorably with the 14.2 percent goal called for in the plan."

With regard to indebtedness, it stated: "The budget showed a continuing trend towards an imbalance between the growth rate of spending (16.5 percent a year, excluding contributions to the Venezuelan Investment Fund) and the decline in current revenue (-0.6 percent a year), which caused supplementary revenue from loans to be 26.2 percent greater than the plan envisaged would be secured through borrowing for the 1976-1978 three-year period."

It noted with regard to social areas that: "As to education, although school enrollment was up and the number of teachers and schools increased during the period under study, the gains are not in proportion to the amount of money spent to this end. School enrollment percentages are still far from optimum levels, mainly among youths from 13 to 15 years of age, only 67 percent of whom are estimated to have attended a regular place of schooling in 1978. This drops to just 27 percent among 16- to 18-year olds, not including those enrolled in higher education. In addition, many students are being left back, about 9 percent in primary school and 12 percent in daytime intermediate schooling. Moreover, less than one-fifth of the students who began primary school 12 years ago are graduating from secondary school, which indicates an alarming drop-out rate."

In connection with health care it asserted: "Despite the sizable investments made during the 3-year period, there are still too many inhabitants per doctor (888 nationwide in 1978), and some towns in the interior with more than 5,000 inhabitants have just one doctor, while others have no physician at all. The number of nurses per physician nationwide is the same, 0.6, as during the years prior to the plan. Moreover, the ratio of beds per 1,000 inhabitants still stands at 3, and health care is still largely curative rather than preventive.

These indices suggest that health care services continued to be characterized by the same patterns of inefficiency and poor quality, in contrast to the aspirations of the plan."

Concerning nutrition it noted that: "Nutritional problems continued to stand out during the time that the plan was in effect. A 1977 sampling of 111,670 children between the ages of 1 and 6 showed that 43.8 percent evinced clear symptoms of malnutrition, with this percentage rising to 63.6 in the states of Sucre and Barinas. Another sampling of 481,507 children between the ages of 7 and 11 revealed that 45.1 percent of them were malnourished, 63 percent in Sucre State."

It had the following to say about housing: "The plan called for the housing problem to be tackled with vigorous housing construction programs to reduce the existing shortfall and provide the basic community services required by the public, with emphasis on lower income areas. We can see that during the plan years (1976-1978) the public sector built an average of 27,363 housing units a year, which is fewer than the average of the 2 years prior to the plan (1974-75), 33,393 units a year. Although a slight increase was achieved in housing construction by the private sector, this did not reduce the housing shortage, which, on the contrary, was estimated to have risen to some 600,000 units. As far as the provision of housing-related services is concerned, about 36 percent of the people in rural areas lack a water supply service. The problem is even worse with respect to plumbing and sewage systems, even in urban areas, where only 68.3 percent of the population is covered. As far as electric power service is concerned, the plan's goals are close to being met, with significant gains in the percentage of people served; nevertheless, there are still occasional interruptions in the service, which continues to be of poor quality, and this has prevented various activities from being pursued smoothly and unimpairedly."

As to economic growth, it asserted that "The more than six percent annual growth rate in the Venezuelan economy from 1974 to 1978 was mainly the result of the abundant external resources from hydrocarbons exports and the state's role as a promoter of development. The rapidity of this process caused imbalances and snags that are hindering the continuation of the development process itself, which is needed to transform our society and raise the living standards of the entire population."

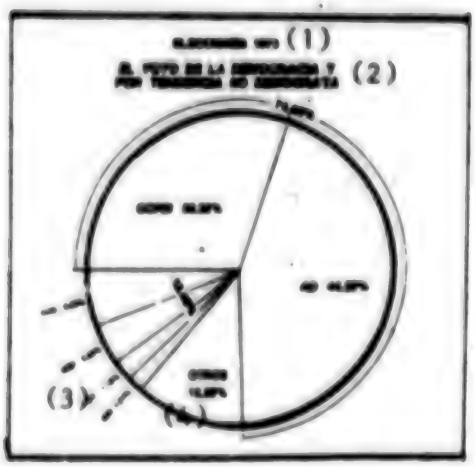
It made the following harsh remarks about how C.A. Perez handed over power with the country at the edge of an abyss: "The recent expansion, marked by the aforementioned imbalances, has given rise to undesirable elements that could in the future become trouble spots for economic and social progress, such as an incipient process of rising prices, some of which have been artificially restrained by controls. In this regard, we note that the cost of living index in the Caracas metropolitan area is up 48 percent in 1978 over 1973 and that imports have expanded substantially, increasing between 1973 and 1978 at an average yearly rate of 32.5 percent."

It had this to say about inflation: "Inflation has made it more expensive to finance the state's policies, has helped to confuse and snarl investment

decisions and had caused a drop in the real income of major groups of wage earners, who in their desire to make up for this drop have brought additional pressure to bear on production costs."

How could there be such a difference between what the government said had to be done and what was actually done? The most dramatic illustration of the "Venezuela Effect" occurred between 1974 and 1979.

Accelerated Growth of Economic Indicators (billions of bolivars)	1972	1975	1976	Change (1972=100) 1975	1976
Commercial banks					
Total deposits	13.923	32.605	37.362	236	268
Government deposits	1.600	4.670	6.115	292	382
Loans and investments	12.588	30.821	34.291	245	272
Mortgage banks					
Bonds in circulation	3.291	7.697	9.767	234	297
Mortgage financing	3.328	7.938	10.174	239	306
Domestic money supply					
Currency	8.638	23.042	22.934	267	265
Monetary base	16.862	40.460	43.732	240	260



Key:

1. 1973 elections
2. The democratic vote and the vote for nondemocratic factions
3. Venezuelan Communist Party
4. Others

VIII. When politicians discuss the problem in their own terms, in a bid to extol what they have done and downplay the negative, our understanding of it is clouded and thrown out of focus. The above quotes are, however, ample and irrefutable proof, because although they were compiled and submitted by the people in the new Christian Democratic administration who have gone about systematizing the background information for drawing up the Sixth Plan of the Nation, the fact is that all of the indicators, studies, surveys and statistics that they used were gathered together by the previous administration, and the validity and accuracy of their results have never been questioned. At the outset of C.A. Perez' term, however, there seemed to be more of an interest in relentlessly underscoring the mistakes of the previous administration than in exploring in depth the real reasons why that administration and all previous administrations had left essential national problems intact and perhaps made them worse, despite their good intentions and despite having available abundant revenue relative to previous periods. The tragedy of the matter is that we Venezuelans do not seem to have realized that countries as poor as or poorer than Venezuela and that do not have oil have to place the initial cumulative burden on the backs of the poor working masses but that since we are an oil-producing country, we have a definite chance to free ourselves from such a sacrifice. This basic fact could also have caused us to err in our approach to the problem, however. Even if we assume that we realize that oil offers us at least the theoretical possibility of emancipating the country's working masses from the sacrifice of building the initial production infrastructure, we do not seem to have understood that man is the basis and focus of all this and that it is at man that all efforts should be aimed. Here is where the "fetish of capital" comes into play, because we want to build with capital alone what our population, due to its cultural and even biological characteristics, is not in a position to handle. This is the meaning of the "economic indigestion" that Juan Pablo Perez Alfonzo talked about. And to this we must add the fact, which can be verified by a simple assessment of scale, that capital investments, backed by the theory that they are "productive investments," are more appealing than social investments, which at times get caught up in a misunderstood paternalism or whose results are for the very long term. Did the new administration grasp these realities? To judge from speeches, yes; to judge by what happened, no. The most extraordinary opportunity that any Latin American country has ever had to make the big leap from the quagmire of hunger, ignorance and underdevelopment was wasted amid the whirlwind of day-to-day government, the pressures of interest groups and because of human frailty. What we must emphasize now, however, is that this was not a new development model, not a bold attempt at social justice, not the application of a new theory. No. What happened in Venezuela from 1974 to 1979 was merely the continuation of the same pattern of development, of the same government spending model and even of the same vices of abuse and corruption that have marked the entire history of Venezuela ever since the first barrel of oil yielded the first profits for the state. The question now is one of magnitude.

The number one problem, the abundance of revenue resources, was diagnosed with admirable accuracy. The following statement by President Perez summarized this diagnosis and the action to be taken in light of it:"I will administer the abundance in accordance with a criterion of scarcity." The action taken, the

creation of an "Investment Fund" to keep the petroleum revenue surpluses outside the country was hailed almost unanimously by national public opinion as a wise and sound move. Recalling this, public finance expert Ivan Pulido Mora wrote in his "Brief History of Public Finance in 20th Century Venezuela" that:

"Very few people, just the ones who are familiar with the history of the intensified use of the manna from heaven, are incredulous or at least reserved. The serious domestic problems resulting from an economic intoxication by foreign exchange from the depletion of a resource not generated by one's own efforts can already be seen in other oil-exporting countries, and the accumulated problems are generally known as the 'Venezuela Effect.' Algeria is pointed to as an example of a country that is doing to itself what we reproached the multinational corporations for having done to Venezuela."

No one cared whether the much proclaimed "second independence" represented by taking over the remaining years of the concessions has been tarnished by the fact that Treasury depended on oil for 85 percent of its current revenues. The criticisms of less than a year ago that the 14 billion [dollar?] budget submitted by the previous administration was "too high" have been forgotten. Budget expenditures went up 195 percent, greedy adventurers, both foreign and national, overwhelmed the government with the most fantastic development projects and schemes, while current expenditures equaled in 1974 and then surpassed the figure termed "too high" 9 months before for total state outlays. "It was a time of money madness, money intoxication," says economist Ivan Pulido Mora. An obligatory increase in wages was decreed, on the one hand, to "keep up with inflation," while on the other hand, a price freeze was decreed "to contain inflation." Farmers had their debts remitted, and the Agricultural Marketing Corporation was allotted an astronomical sum of money, more than 1.7 billion, to continue subsidizing foodstuffs and thus "conceal" inflation. And the overwhelming majority of these foodstuffs were imported. Little more than a day after President Perez had made the key remark of "administering the abundance in accordance with a criterion of scarcity," the government was showing that it was morally, humanly and even ideologically incapable of adhering, even partially, to what was implicit in this remark. Knowingly or unknowingly, but seeking to reap immediate benefits from its policies, it unleashed the most acute inflation and concealed it with subsidies. The money that had raised so many hopes began to vanish and trickle away down the thousands of drains opened up by this policy, which was aggravated by the disorderly, hasty, contradictory and bewildering structural reforms. The creation of the "Investment Fund" reflected the tacit assumption that these "additional" revenues would continue year after year. A serious mistake. Oil revenues were to remain stable, with some falloff, until...the developments in Iran.

A drunkenness took over everything. The "totalitarian temptation" made its presence felt, and a few weeks after taking office, C.A. Perez asked for and got from Congress, which submissively supported him, special powers to legislate by decree on economic issues. It was a virtual dictatorship. This move was "justified" as an emergency measure to deal with inflation...an inflation caused and aggravated by the administration itself. The explanation of why the bill was submitted so quickly was that it was needed "to set a more just and rational pace for this new era in Venezuela's history."

It was of no use to voice the opinion that we were lapsing into an executive authoritarianism odious to democracy and that such a law struck at the very essence of the system of the division of powers and the checks that ought to be brought to bear on the Executive Branch. The bill was passed, not only with the votes of his own party but also with the backing of MAS (Socialist), which contended that it "did not go far enough." The law enables the president to issue decree-laws and "inform" Congress "afterwards." What was done pursuant to these powers would fill five complete volumes. Unprecedented chaos resulted. It was impossible to keep track of so many reforms. A Caracas newspaper published this terse and sarcastic remark: "Mr Secretary, pass me the ball-point pen; we're going to do some legislating." This ball-point pen was used to amend laws and create institutes. The Agricultural Development Fund and the Industrial Development Fund were established; the income tax and social security laws were amended; government bonds were issued to pay off the liabilities of Social Security that had fallen due; the Organic Law of the National Public Treasury was amended. A rundown would leave us breathless. This epitomized the "Venezuela Effect." The most important action taken during the period, the reversion to the state of the time remaining on the oil concessions due to expire in 1983, was carried out with meticulous care, but the only move that could have and should have been made in 1974 to take advantage of the exceptional world circumstances was postponed until 1975. Finally, the Fifth Plan of the Nation was drafted in 1976, and it explicitly proposed that the country borrow massive, unprecedented amounts of money. It was alleged that Venezuela enjoyed special status as a country with unlimited credit and that we had to take advantage of the generous borrowing opportunities we were being offered. The party in power had serious misgivings about the plan, and its author, Gumersindo Rodriguez, was the target of harsh attacks and criticisms. And with good reason. The "development" model prevailed in it, with everything marked by a hastiness that left the door wide open for the most irresponsible extemporizing. Juan Pablo Perez Alfonzo, the father of OPEC, did not mince words and termed it the "plan of national destruction." He issued a lengthy document with the harshest...and most accurate of comments:

"Venezuela is adrift. We never really knew in what direction we wanted to or could head. We are negligent, unstable and contradictory. But we had never before suffered from an 'economic indigestion' like this one, and with the flood of capital we lost our head. The damage that we are doing to ourselves is thus multiplied ad infinitum, adding to the damage that we allow other opportunists to cause us."

The plan's "basic mistake" is described thus: "We can immediately see in the goals and programs of the Fifth Plan the basic mistake from which its destructive impact stems. Since no one can deny it, it acknowledges that the physical and moral condition of the Venezuelan people has deteriorated, again quoting regrettable indices.

"Economic inequality, a partial cause of everything else, is still described in detail in the CORDIPLAN document. It explains that one-half of the country's consumer goods are 'bought by one-fifth of the population, while the other

four-fifths...have to settle for the remaining half of the consumer goods.' It then concludes by recalling that this inequality extends to our various regions.

"But the situation is approached simplistically by claiming that this is due to 'a severe process of underinvestment in the poorest classes of our society.' Here lies the confusion. Human beings are likened to mere change purses, which are overflowing in a few cases but unhappily empty in many others. This is the explanation for the absurd attempts to spend government money ad infinitum: to somehow fill the depleted change purses of our impoverished masses."

Perez Alfonzo is admirably clear-sighted in noting how the new plan would aggravate the country's human degradation:

"After the experience of the past 2 years, people can no longer buy the story that the government will make gains for us by spending more money. The CORDIPLAN statement claims that 'to deal with the devastating effects' suffered by our human resources considerable financial resources were expended and channeled into what government accountants conventionally classify as 'current expenditures.' In other words, much more capital was made available for investment in man. And the amount was not trifling.

"Runaway current expenditures over the 5 years of the previous administration averaged 8.092 billion bolivars, but now the situation has gotten out of control. During its first 2 years the new administration has made the same mistake by doubling these ill-fated outlays, thus worsening the situation. Average current expenditures doubled to more than 16 billion bolivars, necessarily accentuating their counterproductive effects. There are more hungry and underprivileged people and more abandoned and neglected children. Under the prevailing conditions, all of this money being thrown around just leads to greater physical and moral ruin among Venezuelans. The so-called human disinvestment continues.

"An improper attempt is being made to use the tragic situation of our people to justify the major boondoggles that we are witnessing. But it does not stop there. Since our oil is no longer enough to keep the feast going, because it is being used up in current expenditures for imaginary government investments to make up for the actual disinvestment in mining, we are seeing the incredible happen: it never rains but it pours.

"With brazen irresponsibility the government has begun to mortgage the future of the generations to come by engaging in accelerated borrowing."

The scope of the catastrophic "administration of the abundance in accordance with a criterion of scarcity" is placed in its historic perspective in the following manner:

"It would be a good idea to establish some terms of reference in order to get a rough idea of the new scale of magnitudes in which this administration is operating. We depleted Venezuela of an extraordinary amount of capital over the 59 years that our oil was being extracted under the concessions. Adding

up just the amounts declared for each, it comes to 400 billion bolivars, and that estimate is on the low side. And we allowed this asset to be depleted so that we could take in 175 billion bolivars, which were squandered without consideration for our present and future underprivileged citizens. This overall figure does not, however, assign the mounting responsibility that has rested with each period. As I recently underscored, over the 51 years up to 1967, the government took in less than half of the sum total of its revenues, while more than half was frittered away over the past 8 years from 1968 to 1975. And even more seriously, the recent unbridled squandering occurred when the country had already succeeded in securing a more reasonable share in the resource being depleted.

"Over the first 51 years, up to 1967, the government's cumulative share, as it was available to the National Treasury, totaled less than 58 billion of the 175 billion over the full 59 years.

"This means that almost double that amount, more than 117 billion bolivars, were merrily spent over the 8 years from 1967 to 1975. Now then, the squandering of the nation's assets sped up sharply under the current administration. During just 2 of these 8 years, 1974 and 1975, this administration will have taken in almost 70 billion bolivars, an almost 4.5-fold acceleration. This partially explains, though does not justify, the vain illusions of some of the people in this administration, with all of the dangers that such ideas entail.

"Since this accelerating pace cannot be maintained, the government is trying to resort to massive borrowing, which will be the final straw for the nation.

"If the oil money has slipped from the country's hands, which no one can deny, what is going to happen with this additional money, which will have to be paid back with interest at a steadily increasing rate? And if by incurring debts the government weakens its bargaining position overseas, what will happen to oil and iron prices or the prices of whatever we need to sell, rice for example, when we snatch it from the mouths of starving Venezuelans?"

Perez Alfonzo stresses that the Fifth Plan sidesteps what he feels is Venezuela's cardinal problem: its people and its age structure.

"There isn't anyone or anything that can chart a hopeful course for Venezuela as long as it is not based on the critical point around which everything else revolves. In our poor-rich Venezuela, as in any other nation, what counts is its population. Human societies derive their significance and importance from what their men, women and children represent. Natural resources, whether renewable or nonrenewable, offer more or less favorable opportunities for action by man but they are a secondary factor, just as the size of a country's territory or population is secondary."

Perez Alfonzo places hunger, a socioeconomic factor of prime importance, in its context in the following manner:

"We have not succeeded in gaging all of the repercussions of the fact that the great majority of Venezuelans suffer hunger. When 70 percent of the

population does not meet its 'minimal nutritional requirements,' that implies that the great majority of helpless children are in an even worse situation. Consequently, their mental development will be irreversibly impaired, and very little can be expected of such human beings who have been damaged for life. If in fact only 12 percent of the Venezuelan population were mentally retarded, this already painful scourge would be worsening at an increasingly rapid pace, but the fact is that mental retardation seems to be much more common now."

Underscoring the "development-oriented" nature of the Fifth Plan, Perez Alfonzo cautions that: "Reinforced concrete is of minor importance and could even be counterproductive when increasing numbers of children, sick people and the elderly are being neglected. The poor upkeep of public or private facilities, airports, roads, streets, schools or housing units, is merely a reflection of an underlying situation that is impossible to resolve under current conditions: the abandonment and neglect of human beings."

Directing his attention to the needed adjustments in social services and state-run enterprises, he says: "If traditional government services are doing poorly, largely because the chaotic demographic situation overburdens them (there are not enough adults to take care of the children); if we therefore lunge about wildly in the whirlwind of our population pyramid, which forces us to spin about without direction; and if this is the disorderly course, sometimes backwards, sometimes forwards or to all sides, of traditional, longstanding government activities, what can we expect from the recent state-managed enterprises, which cause serious problems even in advanced countries, whether capitalist or socialist?

"What we can expect is already here. It arrived some time ago, and no one argues it: an absolute lack of administrative responsibility and always relying on the budget to fill the gaps opened by mistakes and patent negligence. We do not even have to mention the still relatively rare acts of corruption that the running of these enterprises facilitates to acknowledge the urgent need to correct the situation. If we do not do so, their disrepute will mount, and in the end public opinion could even reach the point of demanding that such experiments cease, regardless of how indispensable they are to soundly counterbalance the plundering economic forces of the private sector."

IX. At the close of his first year in office, President C.A. Perez faced the harsh reality that his address to Congress had nothing specific to say. An entire year had been spent issuing ill-considered and bewildering decree-laws, amid a runaway inflation unleashed by his unrestrainable tendency to step up growth by investing increasingly large sums in state-run enterprises, which were not operating with the minimum requirement of efficiency even for a statist model. He had succeeded only in partly demonetizing the fourfold increase in oil revenues, while boosting demand to levels that the domestic production apparatus could not possibly satisfy. The confusion that had been engendered, moreover, led people to invest locally in speculative areas, especially real estate, leaving the industrial sphere to receive soft loans from the state in liberal amounts. In response to its own transgressions, the government resorted to decree-laws, a very Venezuelan tradition, whereby under obligatory provisions

it established controls, bans, freezes and penalties, and when these did not work, it resorted to further control of the controls. More importantly than all this, however, the morale of workers was seriously eroded by two terribly corrosive acids: first, the overt and sudden wealth acquired by a number of people, often illicitly, always immorally; second, a series of labor decree-laws that benefited wage-earners by ordering double damages, artificial job stability arrangements and an obligatory, across-the-board rise in wages and salaries. From then on, it was all a merry-go-round of millions of bolivars. By 1978, to the astonishment of those who believed in good faith that the government was building "the Great Venezuela," as the official propaganda slogan said, we began realizing that we were stuck on numerous dead end paths or paths that could be continued only by borrowing. The "great projects" had been planned either without financial considerations or superficially, dishonestly or mistakenly. By 1977, state-run enterprises and autonomous institutes had begun a borrowing spree, to the delight...and sneers...of international lenders.

In 1975, economist Mauricio Garcia Araujo cautioned that: "The economic policies and measures taken by the Executive Branch during its initial months in office were full of good intentions and desires to correct as quickly as possible some of the shortcomings and problems besetting the Venezuelan economy. Regrettably, many of these measures were, to a great extent, makeshift, were not backed by accurate diagnoses and were hastily implemented. Some of our most distinguished economic commentators have repeatedly pointed out that there was an overt desire to impress upon national public opinion that the practical results could not be commensurate with the actual scope of the measures taken. The avalanche of decree-laws and official resolutions, the creation of task forces and the announcements of laws truly caused widespread upheaval, prompted uncertainties in many sectors and slowed down economic development in various spheres. Let us hope that it has learned its lesson by 1975."

He then concluded that: "A government with so much political and economic power in its hands is obliged to more than fulfill the country's expectations. A failure due to incompetence, with so much money available, would be impossible to justify."

By 1978, however, failure was not only impossible to justify; it was impossible to hide. Feeling the pressure of the upcoming elections and fearful of the traditional rejection by Venezuelan voters of their governments, the administration resorted to abuses, coercion and threats against its most open critics. In October 1976, Juan Pablo Perez Alfonzo had the following to say in a work entitled "The Gomez Tradition":

"As the government has become more omnipotent, there has been a growing subservience among people who self-interestedly imagine that criticism has to be neutralized by every means, much more so when such criticism is directed especially at those who take advantage of the government. The intensified maneuvers to neutralize my observations on the situation in Venezuela led the magazine RESUMEN to voice a public alert on the matter in its first issue this year, which was, in fact, devoted to President Perez as the 'man of the year in 1975.' It also, however, contained a summary of the 18 points that I said the government had to take up urgently. This was constructive criticism; in fact, rather

than criticism, it constituted true cooperation. After mentioning the maneuvers to neutralize criticism, RESUMEN asked me to keep talking, 'even if someone throws the first stone.'"

By the time that year rolled around, the corruption evidenced by the overt enrichment of individuals with ties to the president and the administration was the target of criticism by an offended country. The founder of the Democratic Action Party himself, former President Romulo Betancourt, did not miss an opportunity to refer indirectly to a situation that repelled him and that he could not acquiesce in with his silence. One famous remark of his was that "Venezuela is not a tropical version of Alice in Wonderland. Our democracy has ugly wrinkles on its face, and I would dare say shameful scars as well." Making constant references to the Watergate affair and other incidents in other countries, Betancourt pointed to the need to mete out harsh and exemplary punishment to those who were acquiring conspicuous wealth illegally. In proclaiming Luis Pinerua Ordaz as Democratic Action's candidate, which in itself was an internal party reaction against the rampant corruption in the Perez administration, Betancourt said: "We have to establish a system to put an end to the public disaster of having a judiciary that is an archipelago in which each political party owns its parcel." After calling for an urgent reform of the courts, he referred to their workings and termed them "stores where sentences could be bought and sold."

For his part, former President Rafael Caldera also made several very harsh remarks about how far government ethics had declined under the administration of C.A. Perez. In proclaiming Luis Herrera Campins the party's candidate, he asserted that:

"With regard to administrative corruption, a very serious problem always but aggravated today as the country's financial resources mount uncontainably, I would like to say, and I think that I have the moral authority to discuss this problem, that this evil cannot be cured with speeches or dramatic remarks. This is an evil that entails behavior and requires joint efforts and loyal cooperation among the various political forces, especially between the two main parties."

In January 1978, Juan Pablo Perez Alfonzo voiced the serious admonition that "Presidential absolutism is jeopardizing freedom of expression in Venezuela." And in light of the arbitrary treatment suffered by the publisher of a magazine, he stated that "Political parties and the mass media must prevent democracy from losing one of its most precious freedoms."

While this was going on, international lenders were providing Venezuela with increasingly large loans, and the irresponsibility with which they granted them was matched only by the irresponsibility with which they were requested. It was a picturesque and tragicomic carnival, admirably described for the magazine INSTITUTIONAL INVESTOR by financial analyst Nicolas Asheshov. Explaining how the government circumvented the provisions of the Public Credit Law, Asheshov gives an indignant and shameful description, but one that is basically true; No one, either in Venezuela or abroad, has gainsaid it. He investigates specific cases and cites first and last names:

Romulo Betancourt

"Some negotiations were particularly complicated. For example, the Simon Bolivar Center needed money and asked the government for it. An arrangement was made whereby the center 'sold' the government some buildings and received payment in the form of guarantees, which it signed over to a group of banks headed by American Express, thus securing a modest loan of $154 million with an 8-year term (this was the amount of the guarantees issued by the government). Since this was a somewhat unorthodox deal (but not unique), the American Express group received a generous fee, one percent, although the bank has not confirmed the amount."

Asheshov describes in minute detail cases in which what comes to light is a scramble that can be likened to wild animals fighting over the leavings of an orgy.

His conclusion is so eloquent, so to-the-point and so illustrative of this aspect of the "Venezuela Effect" during these years that I have to transcribe it in its entirety:

"Though it is impossible to obtain precise figures, the fact is that the general scale is beyond any doubt. Between 1974 and 1978, Venezuela took in about $9.1 billion a year from its oil exports, although last year the figure

approached $13 billion, and the projections for this year are that it will be about $20 billion. In 1973, oil revenues totaled $4.3 billion, while imports cost $2.6 billion. By 1978, however, imports had risen dramatically to $11 billion. Our case is an example of Parkinson's Law, with expenditures rising to the level of revenue. But that would be understating it, because revenues also increased...that is to say...revenues from loans! The inflow of borrowed money offset the climb in outlays. In 1974, the Office of the Public Treasury recorded $57 million in loans for governmental agencies, and the following year the figure was cut in half. In 1976, however, as Carlos Andre Perez' gluttonous spree was just beginning, the yearly total had made a quantum jump to $1.2 billion. And in each of the final 2 years in Perez' term the figure was not far from $2.5 billion. And this was not counting the unfunded debt!

"The public sector's current expenditures (not counting investments) doubled over these years, from $5.9 billion in 1974 to $12 billion in 1979, excluding PETROVEN [Venezuelan Petroleum, Inc]. Estimates are that there was not much of an increase in 1979, but a rise is expected in 1980. By the time that Luis Herrera's administration started up in the second week of March 1979, with his statement that he was taking over a 'mortgaged country,' the issue of the unfunded debt had turned into an unprecedented political debate. And not just because of its irregularities and the corruption that it necessarily entailed, but because 'no one' could say how much it amounted to. No one knew how much was owed! Both the people who lent and the people who borrowed the money had lost count. One of the first things that Luis Herrera did as president of the republic was to appoint a commission to clarify the figures on the unfunded debt and to explain who owed how much. A report was drawn up in a couple of months, but it turned out to be tedious, difficult to understand, somewhat short-sighted and open to varying interpretations. The report is, in fact, an illustration of how poorly, how indifferently finances are handled in Venezuela! The report was passed on to Minister Ugueto, who studied it thoroughly for 3 more months, with few tangible results. In September, President Herrera made a network television appearance to explain the whole mess to the Venezuelan people, an appearance that has had worldwide repercussions. (Minister Ugueto was often asked why President Herrera took so long in trying to clear up the matter, but his response that he did not want to influence the outcome of the 3 June municipal elections is not too convincing.)"

X. This is a macrohistoric analysis. We are trying to detect patterns and archetypes of behavior in channeling the government outlays of a country that has enjoyed additional revenue from oil, over a period of 80 years. Our goal is to come up with an explanation of why in spite of these revenues and of the government spending resulting from them, the social determinants that enable us to describe this country in particular as "underdeveloped" or "backward" have remained essentially intact and why the scant evidence of progress has been offset by the vices that have resulted directly from the inflow of wealth.

In this respect, this analysis aims at establishing an approach by which the same method of macrohistoric analysis can be applied to other oil-producing countries. I have thus chosen to title this essay "The Venezuela Effect," the

the apt phrase invented and proposed by Juan Pablo Perez Alfonzo. I am also, however, persuaded that this is an "Algeria Effect," an "Iran Effect," a "Libya Effect," an "Ecuador Effect," etc. A similar pattern, with the expected differences, can be seen in all these cases. Norway and England, especially the former, are now becoming countries in which a decisive percentage of government revenue comes from oil, and it will be interesting to see whether they conform to these patterns or not. Of course the social determinants in these two countries do not place them in the category of "underdeveloped," and the task before them is not to emerge from underdevelopment, as is the case with rich-poor countries of the oil-producing Third World. We would like to see, however, whether the vices that seem to arise in an oil-dominated economy (in other words, one in which government revenue comes from the depletion of an asset, not from income taxes) rear their heads there and, if they do, how they are addressed by the governments that benefit from this "manna," not from heaven but from the ground under them.

My emphasis on the most recent administrative term of office, presided over by Mr Perez from 1974 to 1979 is justified because of the scale involved, because this administration had more revenue available than all previous administrations and because what we are trying to describe under the general heading of the "Venezuela Effect" exhibited its most insidious symptoms under this government. These symptoms were both morally reproachable and politically unjustifiable, and their economic and social impact and repercussions have built up a momentum that might be difficult to halt within a normal or democratic political process.

The fact is that the Venezuelan State has been expanding to the extent that the "proddings" of additional oil revenues have made this possible. Over the past 80 years these "proddings" have coincided with major political changes, and in many cases they have actually been coincidences, not the result of the political upheavals that prompt change.

Be that as it may, the fact that these sudden jumps in revenue have coincided with radical political changes has entailed an irresistible drive to use this money to bring about what has been implicit in such changes.

This was the case with the political change that came about in 1935, when dictator Juan Vicente Gomez died and Eleazar Lopez Contreras took office. It happened again in 1945 and 1946, when the revolutionary government took advantage of the additional revenue from the in-depth changes brought about by the 1943 Hydrocarbons Law and the income tax provisions.

It happened once again with the political change that took place on 24 November 1948, when a military uprising toppled the civilian government of Romulo Gallegos; the coincidence this time was that the new government benefited from and utilized the additional revenue from the income tax reform, and thus the first fruits of the famous "fifty-fifty arrangement" piled up in the Public Treasury of the military regime.

And then we have the political change of 1958-59, when Edgard Sanabria headed up a provisional government beginning in December 1958. By the end of 1958,

oil revenues were, on this occasion, below the previous year's, the reason being that the concessions granted in 1956 were no longer being paid for. We could thus say that we are dealing with an atypical situation. Moreover, there was a stepped up flight of capital as a result of an uncertain and stormy internal political situation, heightened by what was going on in Cuba at the time. In addition to this, realized oil prices were declining in 1960, which showed up as an almost 10 percent falloff in current government revenue. The outcome of all this was that for the first time in 20 years, government spending fell by 3 percent in 1960. Whether because of this or because this was the Betancourt administration's approach to government, his was the only one that curtailed the bureaucracy and government spending. But although this was true for the initial and most trying years of his administration, government spending during his 5-year term totaled 84.307 billion bolivars (in 1979 values), whereas for the 10 preceding years (in 1979 values) it amounted to 74.311 billion bolivars, and the Betancourt administration's per capita spending averaged 7,596 bolivars, compared to 1,336 bolivars from 1949 to 1957.

The pattern continued under the administrations of Leoni, who enjoyed the peace hard-won by his predecessor, and Caldera, who boosted oil production and revenue much higher yet. Finally, a series of external developments coincided, and revenue and the resulting expenditures jumped sharply in 1974.

All of this points to one unquestionable fact: if we look closely, growth has not been harmonious, patient or gradual; it has been sudden, almost brutal. The Federal Government has expanded, but state-run enterprises have grown too, especially since 1950. This ongoing overblown growth always threatens to outstrip even the most optimistic expectations of oil revenue for financing them or, what is even more unfortunate and tragic, for propping up their negligent, deficit-ridden operations. When collapse is imminent, then "something" happens to supply the necessary funds to salvage these enterprises, at times on their deathbed. It was not idle talk when candidate Luis Herrera Campins stated during the 1978 campaign, as political collapse was imminent in Iran, that "the guardian angel of Venezuelans speaks Arabic."

There was no more "sudden," more brutal jump than the one that took place between 1973 and 1979. It is for this reason that today, in 1980, we would be so bold as to think that the Venezuelan State has become so overblown that even the extra revenue provided not by the Arab but this time by the Iranian guardian angel is insufficient to prevent a unique case of economic collapse. If we take a look at the growth in government spending between 1973 and 1978, broken down into capital and current expenditures, we see that the initial push from 1973 to 1975 came from the oil boom. But when increase in oil revenue dropped from 166 percent in 1974 over 1973 to 1 percent in 1975 over 1974, we note that the inertia of government spending cannot be halted, as current outlays rose 19 percent from the previous year...only to "take a breather" and rise 27 percent in 1976 over 1975, at a time when oil revenues were down 2 percent. But what is more striking is that so-called "capital expenditures" (essentially contributions to state-run enterprises), though losing their momentum and falling off 2 percent from 1974 to 1975 and 22 percent from 1975 to 1976, rose by 17 percent from 1976 to 1977, because over the same period oil revenues

increased by 32 percent. What is more striking is that as oil revenue tended to stabilize, with slight drops, at 1974 levels, the momentum imparted to spending made up the difference through the frenzied borrowing described previously.

In point of fact, oil revenues decreased 2 percent from 1975 to 1976, whereas the national debt rose by 423 percent. From 1976 to 1977, oil revenues were up 4 percent while the debt surged by 84 percent.

A pace like that obviously leads to disaster. No country, regardless of how much "manna" from heaven rains down on it, can maintain one like it indefinitely. Thus, it is quite possible that the "Venezuela Effect" is on the verge of illustrating a unique case of economic collapse even in the midst of an abundance of revenue. All levels of government have grown too large, and they are politically incapable of facing the unavoidable fact that the country cannot sustain indefinitely an enormous group of enterprises that pay virtually no taxes, whose efforts are plagued by the vices inherent in an employer that operates more as a politician than as a producer and that constitute a burden on the consumer rather than a systematizing of the Venezuelan economy. When, how and why did this pattern, this course begin, which leads unfailingly to catastrophe? The hypothesis of this essay is that this is a constant pattern in Venezuelan history, bolstered and intensified by several political changes, but especially by the rise in government revenue from petroleum. A 1977 study by economists Mariluz de Sanchez Covisa and Carlos Zubillaga Oropeza recounts the history of this:

"Government intervention in the economy, the state as businessman, began by chance upon the death of General Gomez, when the state expropriated and took control of the assets confiscated from the dictator. It was during the 1930's and 1940's, however, that, as a result of pronounced operational and political intentions, institutions such as the Industrial Bank of Venezuela, the Agricultural and Livestock Bank, the Central Bank of Venezuela, the Workers Bank and the Venezuelan Development Corporation, among the major ones, were created.

Central Government Expenditures (Billions of Bolivars*)

	Current Outlays		Capital Outlays		National Debt		Total	
Year	Amount	Percent change	Amount	Percent	Amount	Percent	Amount	Percent
1973	8.644	20	5.727	13	.600	11	15.042	17
1974	13.331	54	23.910#	317	2.818	326	40.059	166
1975	15.914	19	23.423#	-2	1.033	-63	40.370	1
1976	20.228	27	13.823	-22	5.406	423	39.467	-2
1977	25.291	25	21.221#	17	5.528	396	52.041	32
1978	24.452	-3	17.815	-16	7.635	84	49.902	-4

*Includes contributions to the Venezuelan Investment Fund
#Data compiled by economist Garcia Araujo. Source: Central Bank of Venezuela

"In the 1950's and 1960's, the state's role in the economy became diversified, taking on importance as part of domestic production activities. It is during this time that we clearly see the state's desire to run basic industries, such as petrochemicals and iron and steel.

"Nevertheless, it was in the wake of the sudden jump in oil prices on world markets in late 1973 that government institutions and joint enterprises proliferated throughout the range of the national economy."

The two economists illustrate their assertions with an admirably persuasive chart.

Can we say that this trend towards nationalization is a typical pattern in the "Venezuela Effect"? Of course not. The trend towards nationalization is a longstanding, deep-rooted Hispanic tradition. In the 20th century, moreover, it is linked to the political and economic theories that advocate this model as the one best suited to achieving social justice or the specific goals ascribed to the state by each of these theories...from Marxism-Leninism to the more or less distinct versions of Social Democracy, in general, all of the trends in political and economic thought with the exception of the liberal or neoliberal movement. Nonetheless, the phenomenon of state centralization or absorption (depending on how you look at it) of a wide range of economic activities presents a number of characteristics in Venezuela's case that we must examine in greater depth to better understand what seems to be an age-old tradition and a contemporary trend. If we were to give in to the temptation of examining this development in the light of political dogmas, whether liberal or statist, we would be taking it out of context and failing to stress the syndrome of the "Venezuela Effect."

It is undeniably true that the political generations that came to the fore in Venezuela as of 1936...and especially as of 1945...were greatly influenced by contemporary political trends. Proof of this is that the Venezuelan political parties formed after the dictator's death completely abandoned the approaches of the "traditional" political parties of the previous century, with which they had no link of continuity whatsoever, and were almost a carbon copy of all the political trends in the 20th century.

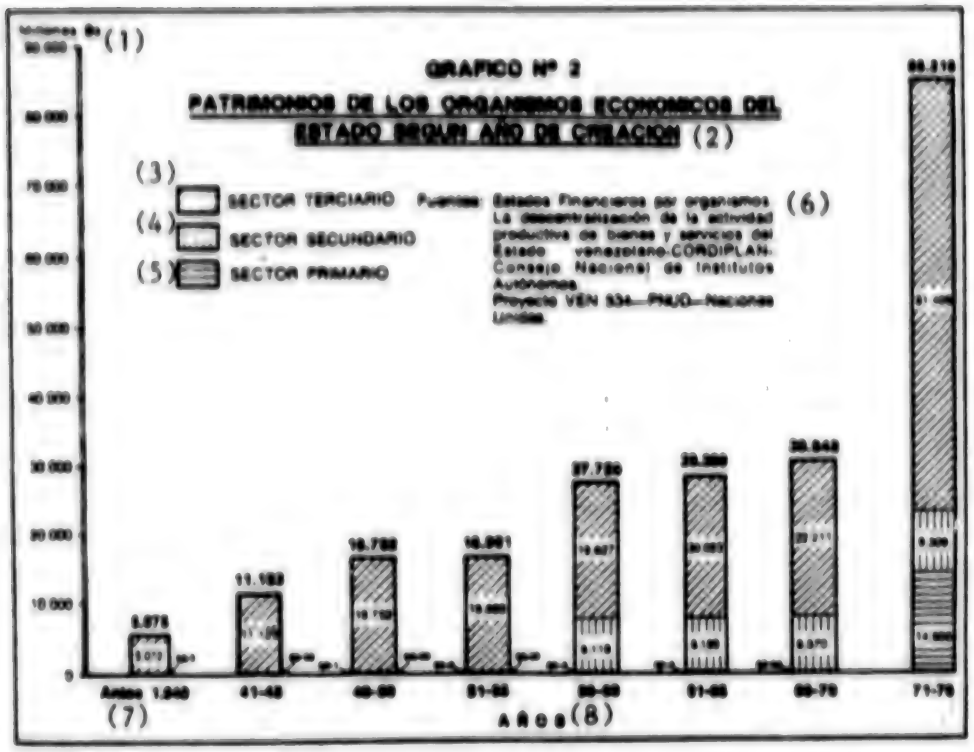
Thus, the motivational and philosophical component of this trend towards investing a substantial portion of oil revenue in state enterprises is not at all exclusive to the "Venezuela Effect"; on the contrary, we can say that it is a more or less faithful imitation of a universal trend. Hence, assigning this factor its proper weight but without letting ourselves get carried away by the antistatist arguments of liberal philosophy, in all of their variations and subvariations, we must examine this trend within the context of its distinctive parameters. Which are? In the first place, the tendency or the temptation to develop an industrial structure with the oil revenues, thus relieving the working masses of the sacrifice of doing so, is irrepressible, justifiable, understandable and even inevitable. Can anyone come up with a better theoretical prescription? This is what "sowing the oil" is. It is building

roads, bridges, dams and factories too with the capital furnished by oil revenues. Oil has been and is an increasingly important generator of wealth but a poor source of jobs. It is precisely for this reason, because of its nature as a liquid, because of the molecular structure that makes it the source of a great many products and because it is so easily handled at every stage in its extraction, production, transportation and refining, that oil produces so much money but so few jobs. In 1974, when Venezuela had an economically active population of 3,304,664 persons, oil, which generated 85.8 percent of current government revenue and 47.8 percent of the GDP, employed just 23,733 persons, 0.7 percent of the working population.

Furthermore, nationalization was an almost inevitable path, because of the deep-rooted historical fact (going all the way back to the laws of King Alphonso X the Wise) that the resources of the Venezuelan subsoil belong to the state and cannot, therefore, be appropriated by private individuals. The "concession" method is not a hybrid of state capitalism and private enterprise. It is a natural legal outcome of this fact, inasmuch as a private entity performs on behalf of the state the work involved in extraction under a public law contract that is revocable, conditional and for a fixed period of time. The concessions, which were standardized in 1943, called for the reversion to the state of all the petroleum facilities constructed under them, and thus their very language contained not only the seed but the intention and goal of direct state management of this extractive and industrial activity. Was it even conceivable that the proceeds from this resource should have been used to finance Venezuelan industrialists and businessmen, who by tradition and by the very weight of developments tended to oppose the people who began to exercise real power in Venezuela after 1945? Thus, all of these ideological, historical and human developments, plus the very nature of the petroleum concessions, tended to create a state capitalism (the capitalist par excellence!), not a situation similar to that of a country in which capital is formed by savings and labor. If this had not been the case, there would have been a monstruous historic injustice: Venezuelan capitalists and privileged classes would have reaped the benefits of the oil wealth, and it is quite possible that we would have had another Bolivia, where tin made the Patinos, the Aramayos and others wealthy but left the people and the Bolivian Government as poor as ever.

XI. As an economic, social or political phenomenon, the "Venezuela Effect" is not new. A close look at the history of 17th century Spain reveals a situation of almost identical dimensions. The torrent of wealth from the development of the New World's silver mines, of which the prodigious Cerro del Potosi was and is a legend, encouraged among individuals not hard work and industry but idleness and the tendency to live off unearned income. Gonzalez de Cerolligo, a sharp political observer and analyst of the time, described the Spanish State's "censos" (which were like treasury bills that produced income) as the worst evil of the time and concluded that "we seem to want to turn these kingdoms into republics of bewitched men, living outside the natural order of things, by act of magic."

There was no lack of warnings. Those who bothered to analyze the obvious discrepancies between the power and wealth of the empire "on which the sun



Key:

1. Billions of bolivars
2. Net worth of state economic agencies by year of creation
3. Tertiary sector
4. Secondary sector
5. Primary sector
6. Sources: Agency balance sheets; the decentralization of the production of goods and services of the Venezuelan State-CORDIPLAN-National Council of Autonomous Institutes. Proyecto VEN 534--UN Development Program
7. Before 1940
8. Years

never set" and the terrible poverty so eloquently exemplified by the hunger of "Guzman del Alfarache" or "Lazarillo de Tormes" or the Quixote himself (not to mention author Miguel de Cervantes), were neither listened to nor understood. They proposed that the government drastically cut spending and invest in canals and roads, stimulate immigration and, above all, eradicate through its example the notion that work was degrading and the prejudice that "Spain was rich and did not need to work." Like the mercantilists in the rest of Europe, these thinkers were ignored when they spoke the truth, and the result was that Spain, paradoxically, grew poor at the very time that even more gold and silver was arriving. If the Flemish and the German and Italian bankers carried off the

Total Government Spending (Billions of Bolivars)

	1960		1970		1974		1975	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Centralized								
Central Government	4.104	54	6.380	37	11.627	29	15.309	21
Regional Government	.533	7	1.061	6	2.404	6	3.671	5
Municipal Govt	.684	9	.879	5	1.337	3	1.817	3
Total	5.321	70	9.320	48	15.368	38	20.797	29
Decentralized								
Administrative Agencies	.560	7	2.168	12	5.317	13	6.329	9
State Enterprises	1.758	23	6.963	40	19.289	49	43.553	62
Total Government Spending	7.639	100	17.451	100	39.974	100	70.679	100

Source: "Total Government Spending in 1974," RESUMEN, 26 October 1975; Economic Report of the Central Bank, 1975.

Key Financial Data on a Sample of 18 Major State-Run Autonomous Agencies (Millions of Bolivars)

	Year	Total Assets	Net Worth	Gross Earnings	Budget Allocations	Total Outlays	Taxes	Profits (Net Loss)
Central Bank of Venezuela	1976	38,296	2,584	1,031	--	554	--	477
Venezuelan Investment Fund	1976	24,464	23,331	857	--	7	--	850
PETROVEN	1976	21,302	14,413	38,991	--	6,575	28,654	3,572
Venezuelan Corporation of Guayana (consolidated, Orinoco Iron and Steelworks, Caroni River Electrification Project, Ferrominera	1975	10,885	6,158	1,822	1,175	1,371	--	1,626
Industrial Bank of Venezuela	1976	7,264	270	158	--	113	22	23
Venezuelan Development Corporation	1976	4,431	2,887	118	--	220	--	(102)
Simon Bolivar Center	1975	4,218	491	49	--	41	--	7

	Year	Total Assets	Net Worth	Gross Earnings	Budget Allocations	Total Outlays	Taxes	Profits (Net Loss)
Agriculture and Livestock Development Bank	1976	3,376	125	40	--	36	--	4
Venezuelan Petrochemicals Institute (consolidated ENSAL)	1975	3,099	1,900	253	253	646	0.3	(140)
Electrical Administration and Development Corporation	1975	3,080	1,467	606	--	642	--	(36)
National Telephone Company of Venezuela	1976	3,028	1,406	915	--	826	--	89
CORPOMERCADEO	1975	1,536	1,214	1,416	1,898	271	--	(753)
National Savings and Loan Bank	1976	1,153	383	90	--	81	--	9
Workers Bank	1976	994	39	33	--	29	--	4
Venezuelan Navigation Company	1976	906	642	733	--	737	--	(4)
VIASA	1976	647	141	593	--	557	7	29
National Tourism Corporation	1975	342	299	9	32	46	--	(3)
Sugar Mills (Consolidated)	1976	281	126	110	--	158	--	(48)
Total		129,302	57,876	47,824	3,358	12,970	28,683.3	5,604
PETROVEN		21,302	14,413	38,991	--	6,575	28,654	3,572
Total (excluding PETROVEN)		108,000	43,463	8,833	3,358	6,395	293	2,032

Source: Balance sheets of the respective agencies

Cumulative Losses of Certain Decentralized Government Agencies as of 31 December 1975

Venezuelan Development Corporation	640,357,000
Agricultural Marketing Corporation	2,578,193,000
Venezuelan Petrochemicals Institute	1,254,006,000
National Agrarian Institute	230,529,000
National Housing Institute	532,706,000
Institute of Agricultural and Livestock Credit	1,265,507,000
National Institute of Sanitation Works	755,088,000
Venezuelan Air Mail Line	350,007,000
CONAHOTU	83,840,000
Total	7,690,233,000

Source: Overall 1975 Balance Sheet of the National Public Treasury, General Comptrollership of the Republic.

wealth that was brought from the Americas to Spain long ago, the situation in Venezuela today is similar, if not identical, with the sole and significant exception that for whatever reasons Spain's Golden Age was golden not because of the gold from the Indies but because of the gold from its writers and painters. Scientific and artistic accomplishments in modern-day Venezuela, during past years of oil-based affluence or the super-affluence of recent years, have been qualitatively and quantitatively inferior to those of the last century, one of poverty and want...even leaving aside the amazing generation of 1810. There has been a turn towards vulgarity, towards a loss of what constitutes our national identity, towards mediocrity, and the country seems to be drowning in a sea of pettiness, of minor quarrels about the absurd sprees to which the all-powerful state feels it is entitled. The "Venezuela Effect" is not only a distortion of productivity, an overblown state, waste and embezzlement and the shattering of work morale; it is also intellectual impoverishment and a diminished capacity for creation and accomplishment in the fields of research and art, because of the clamorous scramble for money.

Scientists and writers, painters and novelists, historians and philosophers are, one after the other, sucked into the whirlpool of the mediocre, foul-smelling scramble for lucre. The state invests great sums of money in researchers who do no research, writers who do no writing and painters who do no painting. Even the military has been caught up in this carefree, spendthrift trend. The so-called Institute of Higher Studies for National Defense, copied from the Brazilian model that was the breeding grounds of the development-oriented military regime that many people see, perhaps correctly but in any case in desperation, as the last hope, is a place whose waste of money is equaled only by the mediocrity of an absurd, impossible and vapid educational model. The idea of "getting something for nothing," of the right to get something for nothing just because a person says he needs it or because he really does need it, permeates everything. The very political system that has had more money over the last 21 years than all Venezuelan governments since 1811 is surviving on the basis of useless and unjustified expenditures of oil-based funds. The debilitating force of the "Venezuela Effect" is most visible in the lack of real determination, of moral courage and of political decisiveness on the part of those who have enough power and influence to correct the many ills that have been created within the democracy established in 1958. Gonzalo Barrios, who will go down in history as a man who made many intelligent and accurate statements but lacked the determination to put them into practice, said in September 1979 that "The basic mechanisms of democracy survive, but the sluggish or poor use that is made of them is beginning to disturb public opinion."

We have to ask ourselves frankly to what extent this "sluggish or poor use" can be tolerated by the people, who relieve their governments of the political consequences that would normally stem from it because the state abuses its funds to lull them to sleep, buy them off or prostitute them. The system has created an idle, useless, unjustifiable structure. The "Legislative Assemblies," for example, are little more than grotesque caricatures of what they were last century, the embodiment of powerful federalist ambitions. Today, their only purpose is, admittedly, to maintain a parasitic partisan political machine. To a great extent, this could also be said of the National Congress, which in

addition to its other shortcomings in performing the functions expected of the Legislature, even lacks a legitimate origin, inasmuch as it does not have the essential link to the people it says it represents, because the deputies, senators, councilmen and members of the assembly are not directly elected by the voters or the entities.

The voters are being swindled out of their rights by the absurd electoral system of "cards," whereby in a single, blind act they "elect representatives" to "representative" bodies. All of the efforts put forth to bring about a system of direct election, at least of councilmen, have run up against the closed oligarchies of the political parties, which refuse to let go of a power that because it is in their hands, not the voters', makes the electoral mechanics a joke, representation a farce and democracy a sham.

We could continue with these examples, one after the other, until we had developed an overwhelming amount of evidence that without oil this farce called "democracy" could not operate as it has been, but even worse than that, that with oil this farce is still a farce since it can get what it needs to invite more and more Venezuelans to the party. When the oil runs out, the system will collapse. Nothing will be able to save it. There is no reason to save it. Just like the people who tragically fall into the clutches of drug addiction, the "Venezuela Effect" democracy needs more and more of the petroleum drug to maintain the fantasy world it lives in. American "experts" in manipulating public opinion are hired; brazen use is made of enormous amounts of money under the shameless guise of "institutional advertising" or "publicity" for state-run enterprises or the government itself, which by abusing the electronic or print media bewilders a country that has already been brutalized by consumption; major political issues and historical figures are trivialized; barefaced lies are often told, and always there is exaggeration, concealment, dissembling or masquerading, but never...never is the truth told.

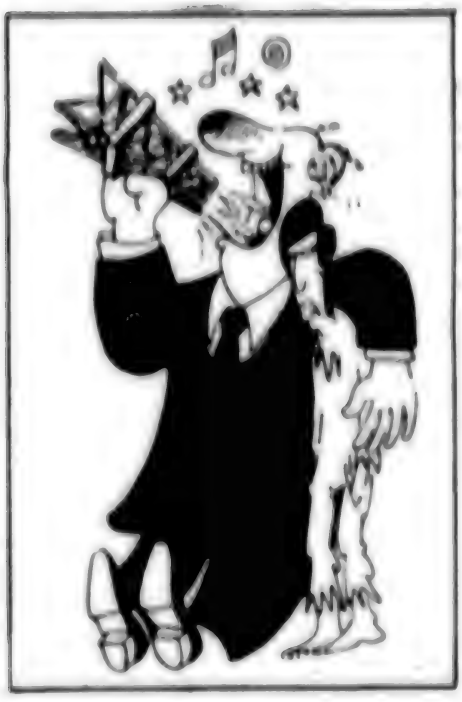
As financial analyst Asheshov so aptly described it in the magazine INSTITUTIONAL INVESTOR and as the affair of the ship "Sierra Nevada," among other incidents, demonstrated, all sorts of swindlers, profiteers, chiselers and unscrupulous bankers are swooping down on rich, prodigal, corrupt, irresponsible, spendthrift, inept, carefree and easy-going Venezuela, lending enormous sums of money in the knowledge that such loans would never be justified on their merits alone and that only the ability to pay of the borrower or the guarantor, the Venezuelan nation, makes the granting of the credit "viable." By 1978 (we can gage this accurately now), the Venezuelan State had swelled to the point of not just indigestion but of virtual self-alienation. According to the tragic Fifth Plan of the Nation, with its nonexistent financial estimates, by that year the enormous revenues of 1973 and 1974, plus the vast amounts that C.A. Perez had available during his term, had not only been spent or committed, but a plan had been set in motion that could be paid for only by resorting to loans, and this is without even considering whether such borrowing was justified under existing economic conditions. Today, in mid-1980, the major mistake of the administration that replaced Perez' is obviously that it did not diagnose in depth how things stood and failed to take vigorous action, as warranted by the

grave emergency, to do away with the patently unjustifiable outlays that were and are causing government spending to accelerate by quantum leaps.

The dazzling election campaign that concluded in December 1978 (and which seemed to blind everyone who took part in it) was followed by another campaign for the election of municipal authorities in June 1979, which, in turn, was followed by the government party's campaign leading up to the election of its own authorities. Because all this futile flurry of activity was a terrible drain on its time, its ability to reflect and analyze and its administrative performance, the Social Christian Party, perhaps the country's most intellectually gifted group of individuals, was unable to give sufficient thought to how grave and how deep a wound the corrupt, inept and insane administration of C.A. Perez caused the country and its future. But it would be a serious mistake to define the "Venezuela Effect" as what happened between 1974 and 1979. It is quite possible that this was an unavoidable effect of the "Venezuela Effect," like everything that lies in the future, but oppressive like every past time that carries the seeds of all that is destructive about this phenomenon.

The basic pattern of the "Venezuela Effect" is spending as a cure-all. This has been the case ever since the first administration spent the first bolivar generated by petroleum. Obviously, however, it is impossible to compare the money spent to eradicate malaria, to build roads, to construct sewers and to pay teachers with the money frittered away on ridiculous enterprises or misappropriated to purchase items such as the famous "Sierra Nevada" or prostituted in the promotion of "economic groups" that become prosperous with public money. In any case and in any event, the worst thing about the "Venezuela Effect" is that like any addiction, it cannot be suddenly uprooted without a great deal of pain and suffering. And this could come to pass. The oil can and surely will depart as suddenly and violently as it burst on the scene in Venezuela and throughout the world. From a technological and scientific viewpoint, there is no reason whatsoever why oil as a source of energy should not have disappeared by the time that mankind begins the magic third millenium. We have just 20 or 30 years left to do and stop doing what we have to to avert a tragic, catastrophic and fatal collapse. When this happens, the case of Venezuela, the "Venezuela Effect," will be the object of some sort of study that will equate us with those mining ghost towns that no longer even remember their fleeting high life.

But until that day of wrath and disaster arrives, we have to put aside futile rhetoric, flurries of political maneuvering and jingoist references to the past (which is a traditional way of avoiding discussion of the present or future) and reflect seriously and frankly on the real results of the political and economic model applied so far. Of the 50 or so years that petroleum has had a real presence in 20th century Venezuela, more than half in absolute terms of time and more than 90 percent in relative terms of money available to the state belong to the so-called "democratic" period starting in March 1959. Even with all of its shortcomings and discrepancies, we must assume that its basic axiomatic postulate has to have been the reduction or elimination of the injustice that is implicit in the concentration of wealth in the few, especially



when the state is the supreme distributor and owner of producers' goods in Venezuela. Nevertheless, the actual results, as gaged according to official tax receipts data, are that while 5 percent of the population owned 15 percent of the wealth in 1960, they held 19 percent in 1966, 26 percent in 1976 and 28 percent in 1979. In contrast, the poorest 20 percent of the population held 5 percent of the wealth in 1960, 4.3 percent in 1966, 3.3 percent in 1976 and 3 percent in 1979. In other words, over the 20 years of the "democratic model" the rich have gotten much richer, and the poor have gotten poorer.

But there are even more serious symptoms and signs. A country's civilization and culture can surely be gaged by how it cares for its elderly, how it treats its prisoners, how it takes care of its abandoned children and how it provides for its needy and handicapped, who are in fact and by right wards of the state. The situation is nauseating, terrifying and shameful. The elderly are abandoned. Venezuelan jails are a world of indescribable horror. Estimates are that between 200,000 and 300,000 children are wandering about our cities in a state of abandonment or semiabandonment, with nothing having been done to alleviate this situation. Hospitals, insane asylums and other centers where the sick and the incurable are sheltered or confined are in the same situation as the Indians in the delta or the Amazon region, because the nation cannot point to any of them with pride as having had their pains and misfortunes alleviated or as having been rescued from ignorance and backwardness by sound, wise investments of the oil-based revenue. Oil-producing Venezuela is a colossal failure. The "Venezuela Effect" is an inventory of mistakes, human limitations, moral frailties, historical blindness and criminal irresponsibility.

The only thing that it has known how to do well is spend money, and it has done so in such a way that not even the sudden and unexpected increases in oil revenues are enough anymore to put a stop to the mad orgy. Venezuela depends for its survival on factors beyond its control. Even if oil revenues were not to fall off, an international emergency that disrupted trade could trigger frightening waves of hunger and shortages, because we import everything we eat. As if this were not enough, our future seems compromised by an enormous national debt, which in 1981 alone will soak up more than one-fourth of total government revenue or double the total revenue 6 years ago. Social injustice, neglected social disgraces and national dependency are some of the realities of the "Venezuela Effect" that rhetoric will no longer be able to conceal.

Jorge Olavarria
Berlin, August 1980

END

8743
CSO: 3010

END OF FICHE

DATE FILMED

25 Feb. 1981